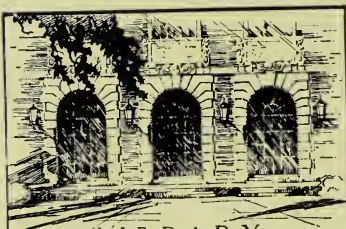


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THE BANK CHARTER ACT,  
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# THE BANK CHARTER ACT:

ought THE BANK OF ENGLAND OR THE PEOPLE  
OF ENGLAND TO RECEIVE THE PROFITS OF  
THE NATIONAL CIRCULATION?

BY

JONATHAN DUNCAN, B.A.,

*Author of "Aladdin's Letters on Monetary Science," &c., &c.*

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SECOND EDITION.

WITH REMARKS ON THE MONETARY CRISIS OF NOVEMBER, 1857.

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"Was man ordain'd the slave of man to toil,  
Yok'd with the brutes and fettered to the soil.  
Weigh'd in the tyrant's balance with his gold?  
No; Nature stamp'd him in a heavenly mould;  
She bade no wretch his thankless labour urge,  
And trembling take the pittance and the scourge."

*Campbell's Pleasures of Hope.*

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"Nothing can be more absurdly presumptuous than to substitute machinery in such a case for human intelligence. A very short time ago, the interest of money was at  $2\frac{1}{2}$  to 3 per cent. Everybody found it difficult to employ their capital; Now, nobody can obtain it for the best security under 8, 10, or 12 per cent. The stagnation of the most legitimate trade is complete; the manufacturer stops his works, the minister is obliged to double the interest of his Exchequer Bills."—*Lord Ashburton on the Commercial Crisis of 1847.*

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"We believe that for fifty years at the least, labour, taking its quality into account, has been cheaper in this country than in any part of Europe; and that this cheapness of labour has contributed vastly to the improvement and powers of the country, to the success of all mercantile pursuits, and to the enjoyment of those who have money to spend. *This same cheapness has placed the labouring classes most effectually under the hand of money and the heel of power.*"—*Times' Newspaper, 5th July, 1851.*

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L O N D O N :

DANIEL F. OAKLEY, 10, PATERNOSTER ROW.

M.DCCC.LVIII.

GROVE AND SON, PRINTERS,  
HARP LANE, GREAT TOWER STREET, CITY.

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1858

PREFACE TO THE SECOND EDITION

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A second suspension of the Bank Charter Act is the prelude to its repeal. It can no longer be permitted to disgrace the Statute Book. The most credulous must now be convinced that this golden machine is charged with explosive materials, harmless while it remains in a state of rest, but certain to scatter ruin in all directions whenever it begins to move and act.

Whatever measures of relief Government may have in contemplation, none ought to satisfy the public which does not provide a safe and sufficient instrument of exchange for internal trade. Bitter experience has shown the folly of regulating the legal tender of the country by the foreign demand for gold. This pernicious system has called into existence a class of money dealers whose interest it is, in constantly recurring cycles, to prostrate domestic industry, by exporting or hoarding the coin of the realm. Then prices fall below the cost of production; commodities are purchased by the wary and heartless usurer who has lurked in ambush for his prey; having seized it, the coin is restored to circulation, and prices rise, the usurer gaining what the producer has lost. This insidious operation has been too long concealed from public view, but any statesman who permits its renewal, after the dreadful catastrophe we are now witnessing, betrays his Queen and plunders his country.

Gold money, fixed in price by the Act of 1816, is only suited to semi-barbarous nations, whose traffic is



carried on by rude barter; it is in no respect adapted to the magnitude of international commerce which is now linking together all the inhabitants of the globe in an ever lengthening chain. An increasing population imperiously demands an increasing trade, but trade cannot expand unless the instrument of production and distribution is permitted to expand in an equivalent proportion. Free trade and a fettered currency are contradictory propositions, and to will the end and refuse the means, brings back to memory the saddening reflection of Oxenstiern, "With what little wisdom the world is governed."

On Tuesday, the 17th of November, 1857, the City Editor of the *Times* put forward what may be deemed his "Confession of Faith," in a carefully matured manifesto of bullionist principles. "In England," he says, "every contract is made in gold. Any man who comes under an engagement to pay a certain sum on a certain day, pledges himself to deliver so many sovereigns." The law is correctly stated, but it is the wisdom of the law that is impugned. Jephtha made a rash vow that he would sacrifice the first person he met, if he returned victorious from his expedition against the enemy. He met his own daughter, thus committing himself to an act of murder. His guilt did not consist in breaking his promise, but in making it. In a similar manner the error of the British legislature does not consist in superseding, but in enacting an iniquitous law.

The City Editor thus proceeds: "Every engagement being based on gold, gold was to be left to its natural course. No man who had contracted to deliver it, would be subjected to any other risk than that resulting from the legitimate variations in its market value. He might find when his payments fell due, that the use of it was worth 10 per cent. per annum, or 3 per cent., but that would be a risk voluntarily undertaken when

he entered into his contracts. What he would lose, the other parties to the contracts would gain, and *vice versa*. Government could no more interfere with justice to alter his relation than they could seek to give relief to a man who had promised to deliver a quarter of wheat on a certain day, and who found it inconvenient to do so, because he had accepted 50s. and the price had meanwhile advanced to 80s."

In these passages the rascality of the system is plainly avowed and audaciously defended, but the gross ignorance of the writer has irretrievably damaged his cause. He has told the world a hundred times that gold is the standard of value, but immutability is the essence of a standard. He knows that the metal contained in the coin is tied down by Act of Parliament to the mint price of £3 17s. 10½d. per ounce, and yet he speaks "of the legitimate variations in its market value." Here it is admitted that gold as a commodity is in conflict with gold as a coin; the former rises under the law of supply and demand, while the latter is forcibly restrained from rising under the same law. What analogy then can be drawn between coin and wheat? Wheat is not our standard, but gold is. No monied denomination is put on the wheat, therefore its price fluctuates from day to day; but a monied denomination *is* put on the gold coin, and *therefore* its price is fixed. Raw bullion, not having the mint mark, is not legal tender. When Abraham Newland was examined before the Lords' Committee of Secrecy in 1797, he declared that the Bank, in its purchases of gold had frequently given for it more than the mint price, even as much as £4 8s. per ounce: but when that bullion was reduced into coin, the Bank could only pass it as legal tender for £3 17s. 10½d. per ounce, and were of course losers by every such transaction. The great contradiction in our system is, that the law fixes the price of the gold coin, while it cannot fix the price of the bullion out of

which the coin is fabricated. The bank note is the *sign* of the coin, which is the thing signified; to raise discounts is to raise the value of the sign, while the Act of Parliament forbids, under the penalty of imprisonment, any rise in the thing signified. Thus the representative and the thing represented are diametrically opposed to each other. For such monstrous anomalies there is but one remedy; liberate the coin from its shackles, restore it to its natural character of a commodity, and in common with all other commodities allow it to find its market price under the free action of supply and demand in national paper money guaranteed by the whole wealth of the Empire. Can the most craven coward demand an ampler and sounder security? The bullionists alone may object to it, as indeed they assuredly will, because of its perfect safety and freedom from fluctuations; it would effectually give checkmate to the whole gang of usurers, as discounts would remain steady whether gold was abundant or scarce.

It is this system of national money that the following pages seek to enforce. A Bank of England should be a Bank of English money, not a place of deposit for a foreign and fugitive metal. The trade and commerce of this kingdom ought not to be dependent on the success or failure of a few diggers of gold in California and Australia; nor ought the hopes or fears of our merchants to be affected by the slow or rapid voyage of ships arriving from the auriferous regions. We want a system based on such enduring principles that the necessity of suspending the law may never occur, and a statesman who has not the intellect to discover such a plan and the courage to enforce it, should retire from a position the duties of which he is incompetent to discharge.

J. D.

Nov. 20, 1857.

## P R E F A C E.

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A PARLIAMENTARY Committee has been appointed to investigate the merits and demerits of the Bank Charter Act of 1844, and to report to the House of Commons whether that Act ought to be renewed, modified, or abrogated. Under these circumstances this pamphlet is submitted to public consideration.

That law known as the "Bank Charter Act" is one of a series of monetary enactments commencing in 1816, consolidated in 1819, and complemented in 1854; and those collective measures are erroneously believed by many to have restored the ancient standard of value, the action of which was suspended during the Bank Restriction Act.

When the Bill of 1819 was passed, it was supposed that it would only lower prices four or five per cent.; in fact, it doubled the amount of the national debt. Mr. Ricardo was the author of that gigantic and ruinous mistake; but he honestly confessed the magnitude of his error before his death. Mr. Bankes declared that every member of the committee who

reported to the House of Commons in favour of the Bill of 1819 were grossly deceived as to its character. It was a measure passed in ignorance.

After the practical experience of a quarter of a century, its evils had become so patent that Sir Robert Peel, who had introduced it, brought forward the Act of 1844 as a buttress to prop up a falling edifice. That Act has been characterised by Mr. Samuel Jones Loyd, now Lord Overstone, in the following terms:—

“It has been justly described by its author as the complement of the Bill of 1819—as the further step which was necessary to render that measure complete, and to give to the public every possible security for the effectual maintenance of specie payments. This is the true object of the measure; and by its efficacy or otherwise in this respect, the success or failure of the measure ought to be tested.”\*

The panic of 1847 was the result of the Act of 1844, and thus both the original building and its sustaining buttress were condemned.

Committees of both Houses of Parliament were appointed to inquire into the causes of that panic. The committee of the House of Commons held nineteen meetings. Of those members who recorded their votes in favour of the legislation of 1844, in support of the report of the Chancellor of the Exchequer, Sir Charles Wood, who was chairman of the committee, one never attended, and therefore never heard one word of the

\* Thoughts on the Separation of the Two Departments of the Bank of England, p. 1 and 2.



evidence; two attended four times, and one five times. Of those who opposed the report embodying the resolutions, and who were present and voted when the resolutions were discussed, none attended the committee less than twelve times. Government only carried the Report by a majority of two votes; but the votes would have been equal had not Mr. Herries and Mr. Thomas Baring who had manifested a decided opposition to the Act of 1844, been unavoidably absent.

Seventeen witnesses were examined before the committee; of these, thirteen condemned the Act of 1844, and its four supporters were three directors of the Bank of England, who supported their own monopoly; and Mr. Samuel Jones Loyd, its real author.

It was condemned by the most eminent bankers and merchants; by the late Mr. Samuel Gurney, by Mr. George Carr Glynn, by Mr. Lister, Mr. Horsley Palmer, Mr. Bevan, Mr. Bates, Mr. Pease, and Mr. Birkbeck of the Craven Bank, Yorkshire, who, on that occasion, was the accredited representative of all the country bankers.

In defiance of this adverse, preponderatingly adverse evidence, Sir Charles Wood, as chairman of the committee, reported to the House of Commons in favour of the Bill, in the following terms:—

“Your committee, after a careful review of ALL the evidence upon this part of the subject, are of opinion that it is not expedient to make any alteration in the provisions of the Bill.”

The committee of the House of Lords condemned the Bill.

It is under such circumstances that the whole subject is to be reviewed; and it is to be hoped that Mr. Cardwell, the chairman of the present committee, will not follow the unworthy example of Sir Charles Wood; that he will not act on his own preconceived opinions, whatever they may be, but on the evidence of the witnesses, as the judges act in the courts at Westminster. The nation requires the verdict of truth, not its perversion by the baleful spirit of party.

In all the efforts made by philanthropists to remove or mitigate the evils of society, the question of money has been ignored; and hence their lamentable failures. It has never occurred to them that money is the half of every bargain, or that modern usury is extorted, not for the *legitimate use* of money, but for its *artificial scarcity*.

Interest at 3 per cent. replaces capital in 33 years.

„	4	„	„	25	„
„	5	„	„	20	„
„	10	„	„	10	„
„	20	„	„	5	„

Is it surprising, then, under the Acts of 1819 and 1844, that the rich grew richer, and the poor poorer?

The people should be made to understand that their labour alone supplies the country with gold, and that cupidity exports that gold to foreign nations, in loans to governments, or to sustain foreign speculations, that usurious interest may be perpetuated at home. The currency question is emphatically a labour question, and till the working classes study it, and master it, they will never obtain any efficient relief from social

evils or political grievances. It would be well also for the rich to study and to master it; for all history proves to those who can look beneath the surface, that usury is the precursor of revolution, and extinguishes nationality.

Panics, the offspring of metallic money, have destroyed in this country, since 1816, as much property as would have redeemed the national debt twice over; is such a system to continue for another period of ten years? Should that be the decision of parliament, the measure of injustice will be full to overflowing. But we will not despair. We look for the aid of the landed proprietors and of the old families of England; for they have never said, as the money lords have said, "Capital owes no allegiance to Country." We hope much from Sir James Graham, a member of the new committee, for he has never formally repudiated the admirable truths he expressed in "Corn and Currency." Now that the gag is removed from his mouth, let him speak out boldly as a man, and atone for his long silence.

London, 25th February, 1857.



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# THE BANK CHARTER ACT,

ETC., ETC.

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## CHAPTER I.

THE Nature of the Controversy between the Advocates of Bullionism and the Supporters of Representative Money stated. Principles of Mr. Huskisson, of Lord Overstone, of the second Sir Robert Peel, and of the *Times* Newspaper. Those Principles examined and controverted. Mr. John Taylor's Definition of Money.

THE Currency Question is generally represented as abstruse, and difficult of comprehension. Perhaps the confusion in which it is involved arises from the mode in which it has been argued, each controversialist putting forward a theory of his own, and entirely suppressing the arguments of his opponents. By such tactics an easy victory is obtained, but truth is never reached. On the threshold of this inquiry, the nature of money ought to be clearly defined, or we shall waste time in a mere verbal dispute, and realise the fable of the two knights, who looked only at opposite sides of the same shield. In the following pages, an attempt is made to join issue on all major points hitherto discussed in print, or debated in parliament. It is therefore proposed, as an introductory text, to state succinctly the leading principles of those who advocate bullionism, and the objections urged against it by those who recommend the adoption of representative money. Thus both

parties will be brought before the court of a candid criticism, and the pretensions of each fairly exhibited. The substance of this pamphlet will be an expanded commentary on their conflicting opinions.

THE ARGUMENT STATED.—BULLIONISM.

1. Mr. Huskisson assumed that it was the essence of money to possess intrinsic value.

2. Mr. Samuel Jones Loyd, now Lord Overstone, and who is generally understood to be the “Mercator” of *The Times*, accepting the definition of Mr. Huskisson, insists that the expansion or contraction of bank notes should exactly correspond with the oscillations of bullion held by the Bank issuing the notes. In his judgment, the perfection of a monetary system requires the convertibility of the paper pound into the gold pound. In this theory, all the processes of exchange must be subordinate to the instrument of exchange; and he contends that, whenever bullion is withdrawn from the Bank, from whatever cause, the circulation of notes must be proportionately curtailed. Referring to the Reports of the Select Committees of both Houses of Parliament, upon the expediency of resuming cash payments, in 1819, Mr. Loyd makes the following remarks:—

“The convertibility of the notes of the Bank was to be secured by regulating the amount of the issues with reference to the state of the foreign exchanges; and the increase or diminution of gold, in the hands of the Bank, was to be taken as the only safe and certain test of the favourable or unfavourable state of the exchanges; consequently, the amount of her paper issues was to vary with a direct reference to the fluctuations in the amount of the bullion in the possession of the Bank.”\*

\* Remarks on the Management of the Circulation, p. 1. London, 1840.



Mr. Loyd gives the following definition of money :—

“ Money, it must be remembered, is not only useful as a medium of exchange in lieu of barter or credit, but also as a *measure* of value; and when paper, in itself possessing no intrinsic value, is used as a substitute or representative of the precious metals, the convertibility of that paper becomes essential for preserving its character as a *standard* of value. When the convertibility ceases, there is no longer any fixed limit to the amount which may be issued, nor any means of obtaining in exchange for the notes that of which they purport to be the representative.”\*

Mr. Loyd thus describes the effect of a contraction of the currency :—

“ A reduction of the circulation must at all times tend to check the facility of credit and to lower prices; an arbitrary or capricious reduction is, therefore, wholly unwarrantable. But if the bullion is diminishing, then the Bank ought to have no option; it is bound to make a corresponding reduction of its issues, otherwise the paper circulation could not act as a metallic circulation would have acted.”†

3. The late Sir Robert Peel, on introducing the Bank Charter Act of 1844, expressed himself in the following terms :—

“ The whole foundation of my measure rests on the assumption that, according to practice, according to law, according to the ancient monetary policy of this country, the meaning of a pound is neither more nor less than a definite quantity of gold, with a mark put upon it to determine its weight and fineness; and that the engagement to pay a pound means nothing, and can mean nothing else than the promise to pay to the holder, when he demands it, a definite quantity of the precious metals.”

4. *The Times* newspaper, following the three autho-

\* *Ibidem*, p. 105.      † *Ibidem*.

rities whose names have been mentioned, asks its opponents, "How do you interpret the words inscribed on the Bank note, 'I promise to pay on demand one pound?' "

Such, in substance and spirit, are the fundamental principles and leading propositions of the most accredited expositors of bullionism, and they demand an answer. It is here fully conceded, *in limine*, that if their premises are logical, their deductions must be admitted, however destructive of industry, however provocative of revolution. If man has no option in the choice of the instrument of exchange, if, of necessity, legal tender must be fabricated out of the precious metal, we must submit with patient resignation to the inexorable decree. But we contend that man is not bound by any such necessity, and that he has an option; that he is the MASTER, not the SLAVE of BULLION.

#### THE ARGUMENT STATED.—REPRESENTATIVE MONEY.

1. With every respect for Mr. Huskisson's great abilities, it is submitted that an assertion is not a proof. It appears to us that he mistook an hypothesis for a demonstration. If an appeal be made to the usages of antiquity, as much evidence can be adduced in favour of representative as of metallic money; but that form of argument is inadmissible on either side of this controversy, for it negatives the law of progress, which law admonishes each generation to improve, if possible, on the practices of their ancestors. Surely we are not to be bound by the bargain made by Abraham, when he purchased the field of Macpelah, for 400 shekels of silver, "money of the merchant." We admit that debts due by us to foreigners ought to be discharged in bullion, coined or uncoined, of a definite weight and fineness; but it does not follow that debts due among ourselves ought to be liquidated in

the same metal. Finally, it is contended, in direct opposition to Mr. Huskisson, that money, *confined in its circulation to the realm of an independent kingdom*, need not and ought not to possess intrinsic value, but only a representative value.

2. In noticing the theory of Lord Overstone, there is no desire on our part to engage in a verbal dispute, for our business is with ideas, not with mere words; but we submit that the term, "exchangeability," is preferable to the term, "convertibility."

We take exception to the rule of regulating our issues of money by the state of the foreign exchanges. Why should our internal trade be in any degree coerced by our foreign trade? Why should not the several counties of England possess an instrument of exchange of their own? If the continent claims bullion from us, let it in all honour be paid; but on what ground of policy or justice can it be argued that the home trade should be interrupted when the bullion is exported. If bankers, bullion brokers, or loan contractors send away gold to some foreign prince, is that a reason why our farmers, manufacturers, and shopkeepers should be deprived of the means of exchanging their commodities among each other?

In his definition of money, his lordship confounds the *standard* and *measure* of value—a source of many errors. The mistake is here only mentioned, as it will be dwelt upon more at length in subsequent pages.

He states that "when the convertibility of the notes ceases, there is no longer any fixed limit to the amount which may be issued." When we treat of the nature of IMPERIAL and COMMERCIAL MONEY, it will be shown that a defined limit may be imposed on paper issues, and that they never can be issued in excess. Further, that they will always exchange for gold at its *market* price, which is all that justice and common sense can require. In contrast with Mr. Loyd's definition of

money, we submit that of Mr. John Taylor, which we entirely adopt.

“Money is a term properly applicable only to that sort of circulating medium which is constituted a *universal legal tender* in the country where it is issued; which depends for its value not on its intrinsic worth as a *commodity*, but on the circumstance that the government which issues it at a certain rate in discharge of its obligations to the people, will receive it again at the same rate from the people in discharge of their obligations to the State. In this respect, coins of the *genuine stamp*, however deficient in weight, and that paper money also, which is issued by the authority of the STATE, are *money*. They are entitled to be universally current, and will be so among the people of that country to which they properly belong. All such money it is within the province of a government to interfere with and regulate. On the other hand:—1. All coins which depend for their acceptance as a legal tender, on the condition that they shall be of *full* weight, are *not money*, but *bits of bullion*, estimable in all countries according to their intrinsic value, and deriving no advantage in any way from privileges conferred by the STATE. 2. All *promissory notes* to pay on *demand* those same bits of bullion, of a certain weight and fineness, are *not money*, but evidence of a contract entered into between man and man. 3. All *promissory notes* to pay a certain sum in that *legal tender* which *is* money, are themselves *not money*; they are merely an acknowledgment of debt, of the claim to which debt they constitute a transfer when they are endorsed and paid away. With all such commercial currency, improperly called money, a government has no more right to interfere, under the pretext of regulating its *quantity*, than it has to interfere with the manner in which men conduct their own affairs of



business, and manage the concerns of their own families."

Mr. Loyd insists, that when bullion is diminishing, the Bank ought to be compelled to diminish its note circulation; whence it follows, that if there were no bullion at all in the country, there ought not to be any legal tender whatever. If there is a danger that the notes and the bullion should not always be in exact equipoise, why permit the issue of a single note? Why not confine the legal tender of the country to bullion? Whether the trade of the country could go on for twenty-four hours under such a restriction, it is for Lord Overstone to prove, not for those who object to his whole system. If the theory cannot bear the strain of such a metallic test, it is worthless, for, to will the end and refuse the means, is folly.

That legal tender should diminish when a single commodity is scarce, and all other commodities are abundant, is to subordinate the general to the particular, and to inflict the most cruel injustice. Take a case. Government contracts for a certain number of steam vessels of war, and binds the contractor to complete the order within a specified time, under a penalty. Let us assume (and the assumption is founded on experience), that when the contract was taken, the Bank rate of discount was 3 per cent., but, before it is completed, that the rate rises to 8 per cent. This difference transfers the legitimate profits of the contractor into the till of the discounteer; if the work is not finished, government enforces the penalty—the same government that maintains the Act of 1844, which raises the discount; thus, in either way the contractor suffers; and what is true in this case, is true in all others of a similar character. Work is stopped, because gold disappears, for, with its disappearance, notes are withdrawn from circulation.

Against such a system the contractor might protest in the following language. "I have abundance of iron, timber, coal, machinery, and skilled and unskilled labour, and am quite willing to complete the contract; I have not hoarded, or exported gold, or lent it for profit to a foreign State; I had no control over its departure from the cellars of the Bank of England; is it then just that I should be plundered of my legitimate gains by extortionate discounts on account of the statutable scarcity of legal tender, or be ruined by government exacting the penalty for not executing the contract." "Yes," replies the theory of Lord Overstone; "you are justly impaled on one of the horns of the dilemma." A reduction of circulation must at all times tend to check the facility of credit, and to lower prices." Gold is thus made the *master*, not the *servant* of labour. Surely such a system is self-condemned.

Had the late Emperor Nicholas given through agents five pounds an ounce for coined sovereigns, the Mint price of them being only £3 17s. 10½d., could we have fitted out the military and naval armament which rescued Constantinople from his grasp? Certainly not, on the theory of Lord Overstone.

3. Had Sir Robert Peel adhered to his own definition of a pound, he ought to have abolished all Bank notes, in which case there would have been no need of "I promise to pay on demand one pound," and no possibility of the promise being violated. But, with strange inconsistency, his measure allowed the Bank of England, the Provincial Banks, the Banks of Ireland and Scotland, collectively, to issue among them upwards of 31 millions of promises to pay, without compelling them to hold a solitary grain of gold to redeem those promises. His scheme exploded in 1847, and the country was only saved from barter by the suspension of his law; and that law has only held its ground since, by the unexpected discovery of the mines of California and Australia.



If the present system is to continue, a distinction ought to be made in the appearance of the notes. Those issued against bullion might be printed, as at present; but those not issued against bullion ought to have their edges marked with a black border. A false credit arises when the bullion notes and the bubble notes are not distinguishable. But, we repeat it, put an end to all notes; circulate coin and nothing but coin, and thus honestly test the metallic theory.

4. The question asked by the Editor of *The Times* in every leading article which he devotes to the Currency Question proceeds on the fallacious assumption of Mr. Huskisson; and is but a repetition, under a changed form of words, of the interrogatory of Sir Robert Peel, "What is a Pound?" The Editor of *The Times* aims at no more than a puerile triumph when he seeks to puzzle or confound his opponents with a truism. Resolved and admitted that a pound means 123 grains of gold; then what is the promise to pay a pound? The question involves a foregone conclusion, and is plainly answered in the mind before it can be expressed in language. If the editor of *The Times* wished to solve a disputed or unsettled problem, he would ask, "What *ought* to be a pound?" When that is determined, it may be that the words, "I promise to pay," would no longer be inscribed on the note; but the words, "I promise to receive." It is the latter formula that will be supported in the following pages, when the reasons for its preference will be assigned.

It is objected to the city editor of *The Times*, that he constantly plays fast and loose with language. When it suits his purpose, he speaks of money with correctness as the medium of circulation and the instrument of exchange; at other times he treats it as *capital*. In this last sense, when sovereigns are exported, he declares the country has become poorer, as

though the sovereigns were parted with without our receiving a full equivalent. If we sent away every ounce of bullion, coined and uncoined, and received wheat in exchange when we were starving, would it be correct to say we were poorer by the operation? The city editor of *The Times* exults when exports of capital, in the form of iron, or of cotton or woollen fabrics, increase; why, then, complain when capital is exported in the form of sovereigns? The city editor of *The Times* fails to perceive, or, if perceiving, conceals the fact from his readers, that, under our monetary system, bullion, in its character of *commodity*, is always fighting against bullion in its character of *coin*; as *commodity*, its *market* price varies under the law of supply and demand; as *coin*, it is tied down to the *Mint* price, be it abundant or scarce. In either character, we are none the *poorer* when it is exported; but as the coin is the basis of our notes, and these latter are withdrawn when the former disappears, the loss of the sovereign becomes the loss of legal tender. True, the foreigner gives us an equivalent in commodities, as wheat, wine, or sugar; but these are not legal tender; we give our money and receive goods, but those goods will not pay taxes, or discharge debts. Hence evil arises; but it could never arise if we had a legal tender not possessing intrinsic value; for, in that case, it never would be exported as a commodity; and it is only as a commodity that the foreigner estimates our gold coin, for to him it is the same as uncoined bullion.

We have now, with as much fairness as we can bring to bear on the subject, stated the main points in the controversy between the advocates of bullionism and the supporters of representative money. The former insist on that character and quality of money which is liable to exportation; the latter contend for a character and quality of money *not* liable to exportation. Bul-

lionism demands a commodity for money ; its opponents contend that money ought not to be a commodity. This is the real nature of the dispute ; on the one side we have a reality, on the other side, the symbol of the reality. It is respectfully submitted to the members of both Houses of Parliament that no sound conclusion can be arrived at till the nature of money is rigidly defined. The question is not, "What *is* a pound?" or, "What *has been* a pound in past ages?" but, "What *ought* now, and in future, *to be* a pound?"

## CHAPTER II.

Adam Smith's Eighth Chapter "On Wages" examined. David Hume on the Expansion of Money. Views of Sismondi. The difference between Political Economy and the Science of Society. The fallacies of Over-production, Over-trading, and Over-population. Mr. James Mill on the Relation between Money and Commodities. Views of Mr. Thomas Attwood and of Mr. Huskisson. The Representative Character of Imperial Money and of Commercial Currency. Opinions of Plato, Seneca, and Xenophon. Influence of Prejudice.

IN England, Adam Smith's "Wealth of Nations," is generally accepted as the text book of political economy; and it appears to the writer of this pamphlet, that a blind devotion to his doctrines has exercised a most baneful influence on the best interests of society. It is, therefore, desirable to expose the fundamental errors of his system, before approaching the nature and action of money. The reader is now referred to the eighth chapter of the "Wealth of Nations," in which he will find the following extracts:—

"The produce of labour constitutes the natural recompence or wages of labour.

"In that original state of things which precedes both the appropriation of land and the accumulation of stock, the whole produce of labour belongs to the labourer. He has neither landlord nor master to share with him.

"Had this state continued, the wages of labour would have augmented with all those improvements in its productive powers to which the division of labour

gives occasion: all things would gradually have become cheaper. They would have been produced by a smaller quantity of labour; and, as the commodities produced by equal quantities of labour would naturally in this state of things be exchanged for one another, they would have been purchased likewise with the produce of a smaller quantity.

“ But this original state of things, in which the labourer enjoyed the whole produce of his own labour, could not last beyond the first introduction of the appropriation of land and the accumulation of stock. It was at an end, therefore, long before the most considerable improvements were made in the productive powers of labour, and *it would be to no purpose to trace further what might have been its effects upon the recompence or wages of labour.*”

The passage *underlined* is the condemnation of Adam Smith's work. He commences by truly describing the just relations that once existed between the producers and products, and what is just ought to be permanent. If the appropriation of land and the accumulation of stock necessarily wrought injustice, and robbed the labourer of his fair recompence, they ought to have been condemned; nevertheless, had those two processes not come into existence, what is termed civilization would not have been known. Adam Smith, as a teacher, ought to have solved the industrial problem, instead of declaring that it would be to no purpose to trace it to its ultimate consequences.

In another sentence he writes thus : “ What are the common wages of labour, depends everywhere upon the contract usually made between those parties whose interests are by no means the same. The workmen desire to get as much, the masters to give as little as possible.” Here he indicates a perpetual antagonism of classes, without making the slightest effort to harmonise interests which are really identical.



“No society,” says Adam Smith, “can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but *equity*, besides, that they who feed, clothe, and lodge the whole body of the people should have such a share of the produce of their own labour as to be themselves *tolerably* well fed, clothed, and lodged.”

The equity of the case is indisputable, especially as, in the natural state of things, according to Adam Smith, the whole produce of labour belongs to the labourer, who then has neither landlord nor master to share with him. And what a mighty boon does Adam Smith confer on those who feed, clothe, and lodge the whole body of the people, when he simply insists, in his narrow view of equity, that they who perform this great work should themselves be *tolerably* well fed, clothed, and lodged.

Here is another passage, which appears to the writer of these Essays absolutely revolting:—

“The wear and tear of a slave, it has been said, is at the expense of his master; but that of a free servant is at his own expense. The wear and tear of the latter, however, is, in reality, as much at the expense of his master as that of the former. The wages paid to journeymen and servants of every kind must be such as may enable them, one with another, to continue the race of journeymen and servants, according as the increasing, diminishing, or stationary demand of the society may happen to require. But, though the wear and tear of a free servant be equally at the expense of his master, it generally costs him much less than that of a slave. It appears, accordingly, from the experience of all ages and nations, I believe, that the work done by *freemen* comes cheaper in the end than that performed by *slaves*.”

Sentiments so heartless merit unqualified reprobation, but Adam Smith does not accompany them with



a single word of censure. He accepts them as expressing an inevitable condition of society. Journeymen and servants are permitted, in this system of political economy, to multiply a race of operatives sufficient to minister to the wants and luxuries of the rich, but that limit they must not overstep. In point of industrial reward the free labourer is worse off than the slave; for, though he produces more, he receives less, so that his nominal liberty is a real delusion.

"It deserves to be remarked," says Adam Smith, "that it is in the progressive state, while the society is advancing to the further acquisition, rather than when it has acquired its *full complement of riches*, that the condition of the labouring poor, of the great body of the people, seems to be the happiest and the most comfortable. It is hard in the stationary, and miserable in the declining state. The progressive state is in reality the cheerful and the hearty state to all the different orders of the society. The stationary is dull; the declining melancholy."

Here it may be asked, what is to be understood by the "full complement of riches?" Surely the term is vague, if not meaningless. This "fulness" is a point to which society is ever tending, but never reaches. If every man, woman, and child had a constant command over all that they desired to possess—if all were well fed, well clothed, well lodged, and well educated—and if the labouring classes were relieved from the excessive toil they are compelled to endure, and had leisure to cultivate their minds and invigorate their bodies—it might be said, and yet only in an hypothetical sense, that a full complement of riches had been realized; but the phrase would still be loose and imperfect; for, were such an advance in social progression attained, it would only be a new point from which to start in a new race.

David Hume had a deeper insight into this question

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than Adam Smith, for he points out the true condition on which alone society is enabled to make ceaseless progress from epoch to epoch.

“In every kingdom,” says Hume, “into which money begins to flow in greater abundance than formerly, everything takes a new face; labour and industry gain new life; the merchant becomes more enterprising; the manufacturer more diligent and skilful; and even the farmer follows the plough with greater alacrity and attention. The good policy of the magistrate consists only in keeping it, if possible, still increasing; because, by that means, he keeps alive a spirit of industry in the nation, and increases the stock of labour, in which consist all power and riches.”\*

The comments made on Adam Smith's Chapter on Wages, have been introduced for the purpose of pointing out the wide difference that exists between the science of political economy and the science of society. The former simply calculates the product, and forgets the producer; the latter proclaims that the labourer is worthy of his hire, lifts him from the degradation of being a mere hewer of wood and drawer of water, recognises the dignity of manhood in every class, and insists on the equitable distribution of wealth. The school of Adam Smith, solely intent on material things, and forgetting persons, has vainly endeavoured to establish a social equilibrium, and though it has taught many useful truths in reference to the division of labour, and the production of wealth, it has done nothing to elevate the standard of humanity. It does not profess to take any heed of morals, or of the feelings and affections. Its philosophy dwells on insentient matter, not on sentient beings. Certainly, this utilitarian school has a right to adopt its own course, and if it did not venture beyond the sphere of accountants and statisticians, no fault could be found with its

\* Essay on Money.

teachings; but when it succeeds in infusing its false and heartless precepts into practical legislation, it becomes dangerous to society. This school forgets that wealth, rightly understood, is not an essence, but an attribute, and that its nature changes with the persons and the things to which it is attributed. To accumulate riches, and place them beyond the reach of the producers, is simply to realise the fable of Tantalus.

The Genevese Sismondi attempted to found another school, but he failed to solve the industrial problem, because he never perceived the baneful action of metallic money; but he saw the evils of the system of Adam Smith, and contributed some valuable materials to the science of society. A single quotation will show the aspect under which he contemplated the subject.

“That product of human labour, which, with subsistence, represents all the material good which man can enjoy, and almost all the intellectual good to which he can only attain by the help of the first, has been called wealth. Wealth, or the theory of the increase of wealth has been regarded as the special object of political economy, an object better designated since the time of Aristotle by the name of “Chresmatistics.” Ideas are not made clearer by disputes upon words, and we should not bring this forward, if it did not serve to define precisely the course of the false direction which has been followed in our time, in one branch of social science. This science has always had, and always must have, for its object, men gathered together in society; economy, according to the proper sense of the word, is the regulation of the house; political economy is the regulation of the house applied to the city; these are the two great human associations, the primitive associations which are the objects of the science; all proceeds from man; all must relate to man, and to man united by a common tie. But wealth is

an attribute—shall we say of men or things? Wealth is a term of comparison which has no sense, if it is not distinctly expressed at the same time to what it relates. Wealth, which is an appreciation of material things, is at the same time an abstraction, and chresmatisticks, or the science of the increase of wealth, having considered it abstractedly, and not with relation to man and society, has raised its edifice on a basis which is dissipated into air.—Wealth, we have said, is the product of human labour, which procures for man all the material good which he wishes to enjoy; it is the representation of all physical enjoyments, which proceed from them. Very well; but for whom? This question should never be lost sight of; whilst, on the contrary, it never presents itself to theorists. For whom? According to the answer which is given to this question, man himself belongs to wealth, or wealth belongs to man!”\*

Personal slavery is the sternest and most absolute form in which man himself belongs to wealth. Cuba is a rich island, but its riches belong to the white man alone, the slaves being the most valuable part of their property. Cotton enriches the planters of the Southern States of the American Union, and the negroes bought and sold at public auction are included in the balance-sheet of their wealth.—The serfs of Russia create riches in which they never participate. In some countries, the nominally free labourer, receiving wages, is only one remove from this degradation.—Thus the Irish peasant raises bread and meat, but rarely tastes either. The cultivator of the vine in the Gironde, on the banks of the Rhine and the Douro, never quaffs the juice of the high flavoured and fully ripened grape. Our weavers and spinners, whose industry clothes the distant Chinese, are scantily supplied with raiment; and in the general interchange of commodities between

\* *Etudes sur les Sciences Sociales* par Simonde de Sismondi.



different nations, only the select few of the wealthy classes enjoy the luxuries produced by a scattered and diversified labour. The school of Adam Smith admires this system. Some of his disciples assert that a national debt is evidence of wealth, whereas it is plain that they who pay the dividends are the bondsmen of those who receive them; if the debt did not exist, the power of production would not be the less, but the produce would remain in the pockets of the producers. This unequal distribution is defended by Ricardo, who did not blush to maintain that the productive classes should be limited "to the necessaries and conveniences required for the support of the labourer and his family; or that quantity which is necessary to enable the labourers, one with another, to subsist and to perpetuate their race, without either increase or diminution."

These selfish dogmas are founded upon narrow views of the science of society, to which the science of political economy ought to be subordinate. The science of society teaches that labour is the appointed destiny of man, and that to sustain physical existence he must raise his own food, fabricate his own clothing, and construct his own dwelling. Had the materials on which industry can exert itself, been withheld by the Creator, the condition of the human race would have been the most pitiable; but Infinite Power, directed by Infinite Wisdom, and prompted by Infinite Benevolence, has made a boundless provision for all His creatures. The three kingdoms of nature, teeming with all the elements of enjoyment, are placed at our command. The surface of the earth is endowed with endless fertility; the race of domestic animals will never be extinct; the mining districts, rich in metals and minerals, are inexhaustible. What is deficient in one hemisphere is redundant in another. The trade winds are the unerring auxiliaries of transmarine intercourse, while the magnet is the pilot of navigation.

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Moreover, man is gifted with inventive faculties, which enable him to mould and fashion all raw materials according to his necessities; and the triumphs of science are measured by the extent of his conquests over the external world.

The argument deducible from this statement affirms that all things needful to the happiness of man have been abundantly bestowed on him by the benevolence of the Deity, and that the sole condition of human enjoyment is labour. Such, in its purity and simplicity is the relation established between the Creator and the creature, so far as the sustentation of physical existence is involved. But God has also endowed man with reason, to distinguish between good and evil—with liberty of choice, to determine his conduct under the influence of motives—and with liberty of action, to execute the determinations on which he may resolve. All this constitutes him a responsible being, the subject of reward and punishment, and establishes his moral relations with Deity. If then, man abuse his reason or liberty, he becomes the author of his own suffering. Under these views the science of society is made to rest on a religious basis, which recognises God as the sole Proprietor of His Earth, and of all that it contains; while it declares man to be the accountable trustee, answerable for its usufruct. In this sense it fundamentally opposes that utilitarian school of political economy, which, calculating the produce and forgetting the producer, takes as its motto, "am I my brother's keeper?" This school has affirmed that a country is over-populated when millions of acres susceptible of culture are abandoned to sterility; that industry has been guilty of the sin of over-production, when millions of men, women, and children, are destitute of the necessities of life; and that money is redundant, when millions of pockets are penniless.

The science of society denies these dogmas. Main-



taining, as a fundamental principle, that all the materials of food, clothing, and lodging, exist in profusion, it contends that if every mouth is a consumer, every hand is a producer. It insists that human desires and appetites are the permanent incentives to labour, and that, as these are insatiable, the motives to production can never be suspended or even enfeebled, unless through some vicious interference of legislation, militating against the laws of nature. It holds that production and consumption having free liberty and full scope, would act and re-act reciprocally and constantly on each other, so that supply and demand would never fail. Nothing could be either deficient or in excess; scarcities and gluts would be unknown. It rejects the fallacies of over-production and over-population, terms, which rigidly analysed, imply a contradiction; for a superabundance of people relatively to food and clothing, and, at the same time, a superfluity of food and clothing relatively to people, are propositions mutually subversive of each other. In real life it is unfortunately true that hunger invades the dwellings of the poor, while granaries are filled with corn; and that millions are insufficiently clothed, while the warehouses of the manufacturers are stocked with raiment to repletion. The desire to consume, however, exists in undiminished force, and if the natural law had free play, both the granaries and the warehouses would be emptied. This, then, is not a case of over-production or of over-population, but clearly one of obstructed distribution.

These fallacies of over-production, over-population, and over-trading, have become so familiar by constant repetition, that few pause to investigate their real import, but accept them as truisms, conveying the sense of a foregone conclusion. It is therefore desirable to dwell a little longer on the point. What is the precise significancy of the preposition "over"

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prefixed to the words "trading" and "production?" None object to trading or production, but to an excess in those operations, implied in the word "over." But "over" is evidently a term of relation; to what, then, is it related? Does it relate to natural demand measured in the desires and appetites implanted in humanity? Clearly not; for those desires and appetites remain unsatisfied, the great body of the people still wanting food, clothing, and lodging; to them, therefore, the term over-production cannot apply, unless we are prepared to affirm that they *ought* to be starved, ragged, and houseless. It is necessary, therefore, to resort to some other alternative, to arrive at a solution. Let then, the term "over" be applied to *mercantile* demand. But the measure of mercantile demand consists in the amount of monetary instruments in which the equivalency of exchange is expressed; consequently it follows that the term "over" really means that the supply of commodities is in excess of the supply of legal tender, so that an *apparent over* production of the necessities and comforts of life is confounded with a real *under* production of legal tender. Under these mistaken views a full market is made to depend, in England, on the presence or absence of a single commodity—gold—the desires and appetites of humanity being altogether excluded from consideration; for if gold is not forthcoming, then it is affirmed by the bullionist school that a case of over-production is established. Distribution can only be effected through the agency of a suitable instrument; that instrument is legal tender. If it be inadequate, distribution fails, and production is arrested. The expansion or contraction of trade is measured by the dimensions of a golden girdle, and this fact being understood, the problem of "poverty in the midst of abundance," admits of a ready and easy solution.

The relation that ought to exist between legal tender

and commodities, has been well illustrated by the late Mr. James Mill.\* Suppose the case of a limited market, in which there were one hundred loaves and one hundred shillings. Under the law of supply and demand each loaf would exchange for a shilling, and each shilling for a loaf. Stimulate production so that the loaves are doubled in number, while the shillings remain stationary. Here it is evident that under the law of supply and demand, 1s. will exchange for two loaves; whence it follows that the price of each loaf, though possessing the same intrinsic value that it had when it exchanged or sold for a shilling, falls to sixpence. If production be still further stimulated, and 400 loaves are created while the shillings are not increased in number, then the price of each loaf must fall to threepence. The result is, that when labour has quadrupled its exertions, the reward of labour is reduced 75 per cent. When such a system is maximised, production is arrested, and the materials of physical existence are rendered unavailable to man. But the remedy is obvious. If one shilling were the *proper* price for one loaf, which is here assumed in the illustration of this argument, *that* price ought to be permanently maintained, to hold the balance even between the producer and the consumer; and this can only be effected by preserving the equation between the shillings and the loaves. As the latter are multiplied, exactly in the same proportion ought the former to be increased. If it be objected that the hypothesis of a market limited as described is an unfair mode of stating the case, since no such market actually exists, the following illustration is submitted in an abstract form, to which, it is presumed, no exception can be taken. The fraction  $\frac{5}{2}$  expresses unity, and is equivalent to the reduced fraction  $\frac{1}{2}$ . Multiply the numerator

\* Commerce defended, by James Mill, in reply to Mr. Spence. 1806.

by 5, but do not multiply the denominator. Then we have  $\frac{5}{5} \times 5 = \frac{25}{5} = 5$ . Let the numerator in both cases express loaves, or any other product, and the denominator express shillings, or any other form of legal tender. In the first case, the equation between legal tender and produce is uniformly preserved, but in the second it is violently disturbed. In the first case, *five* circulates or exchanges for *five*; in the second, *one* circulates or exchanges for *five*; therefore five times as much produce must be given in the second case for the same amount of money, as was given in the first case. The balance is restored by multiplying the denominator by five as well as the numerator.

The question then arises, "Is it in our power to increase metallic legal tender-money, as an instrument of distribution, as rapidly and extensively as it is in our power to increase exchangeable commodities?" That question must be answered in the negative; and experience has shown that in spite of the recently discovered mines of California and Australia, the Bank of England has been unable to make any permanent addition to its stock of bullion. On this subject Adam Smith has committed a grave error, which requires to be noticed.

"The quantity of money," says the author of the *Wealth of Nations*, "must in every country *naturally* increase as the value of the annual produce increases. The value of the consumable goods annually circulated within the society being greater, will require a greater quantity of money to circulate them. A part of the increased produce, therefore, will be naturally employed in purchasing, *wherever it is to be had*, the additional quantity of gold and silver necessary for circulating the rest."

This paragraph deserves the serious attention of all monetary reformers. It is admitted that the instrument of exchange *ought* to increase in proportion as



the commodities to be exchanged are multiplied; for, if it did not, production must be arrested. It is then assumed that "a part of the increased produce" would be sent abroad to purchase gold or silver; but the fact of increased production cannot be conceded, unless we presume that an effect can precede a cause, which is absurd. Moreover, on Adam Smith's own admission, legal tender must exist before the increased produce can be created, and proportionately to that increase. His reasoning, therefore, completely fails.

As the object of this introductory Section is to establish certain principles, and point out some popular fallacies, the writer now proceeds to notice what is the false, and what ought to be the true sense of the term, "plenty of money," a subject ably treated by Mr. Thomas Attwood, in a work entitled the "Scotch Banker." "The rise of the value of money," he says, "in its principal, is attended with a correspondent fall in the value of its interest or use. The money which exists in the country, instead of being scattered and diffused generally throughout the general pursuits of industry, is disproportionately drawn away from those pursuits into the money markets of London, and there it lies inactive, in the hands of bankers, brokers, and retired capitalists; or it is employed in jobbing and dealing in the public funds, or in lending upon short and undoubted securities, when few are willing to borrow, and still fewer are willing to extend their trading operations. The legal tender of the country, instead of being employed throughout the country in enabling the population to produce and consume the masses of their own and of each other's productions, is drawn from those great and vital operations, and is determined into channels where its holders have not the means of employing it themselves, nor the confidence to lend it permanently to others, who, in their turn, have not sufficient confidence to embark it in

business, if liable to be called upon for an early return of the loan. A kind of apoplexy is thus promoted; the head is deluged, while the great limbs of the country are cold and torpid for want of circulation. The money market is glutted in the way of temporary and secure loans, whilst the markets of property and labour are everywhere deficient in that supply of legal tender which is necessary to give remunerating prices, to enable the property and labour to interchange with each other, and discharge the debts, taxes, and obligations imposed on them."

It may, perhaps, be asked, how is this apoplexy produced? and by what means is the money of the country determined into the money markets of London? By what means is the money sucked up from the employment of industry, and from working the great processes of production and consumption in order to glut the markets of interest, and there to lower the interest of money, at the same time that the principal of money is raised in value? To understand this clearly, clear ideas must first be realised. The *principal* of money must be essentially distinguished from the *interest* of money; or, in other words, the *purchase* or *ownership* of money must be distinguished from the mere borrowing and lending of money. In the one case, the ownership of money is transferred in exchange for property or labour; in the other case, the mere temporary use of money, or the mere right of employing it for a short period, is transferred in exchange for some given rate of interest per cent. Entirely different as these two operations are, nothing is more common than to see them confounded in the minds of men. The banker, the broker, and the jobber, when speaking of the *plenty of money*, mean thereby the facility of *borrowing it cheaply* upon good securities. But when the farmer, the manufacturer, and the labourer, speak of the *plenty of money*, they mean thereby the facility



with which their customers or employers pay them their debts, and with which they obtain good prices for the sale of their agricultural and manufacturing produce, and their labour. This kind of plenty of money, this facility of acquiring the ownership of money, may exist, and sometimes does exist, when a great scarcity of money is experienced in the markets, where the use of money is borrowed and lent; and, *vice versâ*, the plenty of money in the markets of interest may exist at the same time that a great scarcity of money exists in the markets of property and labour, where the ownership of money is bought and sold. It is of great importance ever to keep in mind these distinctions.

No man will ever enter upon any discussion of the details or incidents of the currency question, unless he has previously settled in his mind the fundamental principles on which monetary science *ought* to be established.—What *is* a pound? is an idle question; what *ought to be* a pound? is the true problem to be solved. No satisfactory answer can be given to the question till it has been determined whether legal tender money ought or ought not to possess intrinsic value.

Mr. Huskisson, the founder of the modern school of bullionism, affirmed, but never proved, “that it was the essence of money to possess intrinsic value.” The Earl of Liverpool, adopting this hypothesis, insisted that the richest country in the world ought to use the most costly material for its coinage. Lord Overstone, better known as Mr. Samuel Jones Loyd, also adopted the views of Mr. Huskisson, and contends that a paper circulation must not only be convertible into metallic money, but to ensure that convertibility at all times and under all circumstances, it is necessary that all the oscillations of the paper must be made to correspond exactly with what would be the oscillations of

a purely metallic currency, as indicated by the state of the bullion in the bank which issued the paper. This entire dogma proceeds on a mere *petitio principii*, a sheer begging of the question, and takes for granted the very point at issue. The laws of nature always vindicate themselves, and punish those who violate them. Now, had it been a law of nature that legal tender should possess intrinsic value, the earliest inhabitants of the earth would never have been permitted to apply primitive industry to agriculture, but would have been forced to discover gold and silver before they began to raise food, which is absurd, because they must have all perished from hunger before they extracted ore, smelted it, coined it, and perfected a system of mintage; yet all this must have occurred, or the bullion hypothesis is false. It is plain that the character of money is not fixed by any law of nature, and that man is not bound to use the precious metals as an instrument of exchange; it is entirely a matter of expediency.

Accordingly, another school of economists hold that legal tender is purely representative, and that it *need* not, and *ought* not, to possess any intrinsic value. That school regards legal tender as the symbol of the reality, not the reality itself; the sign, not the thing signified; the token, not the substance. It affirms that every independent STATE is entitled to issue legal tender for its own internal purposes in discharge of private debts and public taxes within its own realm, such legal tender not possessing intrinsic value, but only a conventional value derived from the authority of the State which calls it into existence.

Of course this national or imperial money is not designed to pay the balances of foreign trade, since the foreigner could not be compelled to take it in payment of any debt due to him. It would be valuable at home, but valueless abroad, which would prevent its

export. Thus secure of being always kept within the realm of the State which created it, this legal tender would be the special monetary instrument in which all fiscal obligations and mercantile liabilities would be discharged at home, to which function it would be limited.

How, then, are debts due to foreigners to be liquidated? In gold or silver, coined or uncoined, at the *market* price of those metals. In these distinctions there is nothing new, but simply a revival of what is old. The use of what may be called a "double currency," was well known to the people of antiquity. It was soon observed that the precious metals did not increase proportionately with all other commodities; and the wisdom of ancient legislators perceived that production must be arrested if no other distributive instruments than gold and silver were employed. One of the earliest plans adopted to surmount the difficulty was the creation of a national currency in each independent State for internal trade; and its distinctive characteristic was the total absence of intrinsic value which effectually prevented its exportation. This invention greatly economised the use of the precious metals, allowing them to be wholly employed in discharging the balances of foreign trade. Thus the cities of Byzantium and Clazomenæ provided iron money for their own citizens, which circulated at home for the nominal value impressed upon it by public authority. The monetary laws of Lycurgus were founded on the same principle; but that great legislator deprived his money of all value as *merchandise*, by destroying the malleability of the iron of which it was composed. Seneca states that the Spartans also used leather money, having a stamp to show by what authority it was issued. Plato, in his imaginary republic, recommended a double currency in every State. "Coin," wrote that illustrious philosopher,

"is for the purpose of daily exchange, which exchange it is almost a matter of course that artisans must make, and indeed all persons who need their services, and to pay wages to hired servants, slaves, and settlers; for which purpose we affirm there must be a coin having a *value* among the members of a State, but *no* value to the rest of the world." For the purpose of visiting other STATES, Plato proposed a common Greek coin of intrinsic value, which would pass current in all the States of Greece. Xenophon observes that "most of the States of Greece have money, which is not current except in their own territory; hence merchants are obliged to barter their wares for other wares." These examples abundantly prove the early adoption of a double currency in the sense in which we have explained the term.

The general design of this chapter has been confined to throwing open the broader outlines of monetary science. As to what will follow, the candid inquirer after truth is requested to suspend his judgment. Many prejudices exist against symbolic money, and an idle fear of what is vulgarly called depreciation, weds the timid to bullionism.—Others revolt at what is new, but they should remember that what is *now old was once new*.—Nor should it be forgotten that progress has always been checked by the stubborn resistance of preconceived opinion. When Harvey announced the circulation of the blood, and Jenner the principle of vaccination, both were denounced as ignorant quacks. The fate of Galileo is well known. Winsor had to beg his bread by the light of the gas he discovered. Fulton on the Hudson, and Bell on the Clyde, were deemed drivellers when they proposed to propel vessels through the water, not by sails but by steam. Stephenson was suspected of being a lunatic when he was projecting his locomotive, and the *Quarterly Review* declared that he who expected that the



speed on a railroad would exceed ten miles an hour, was only fit for Bedlam. Such examples of error should check rash and precipitate judgments. Paper money has, no doubt, had its abuses, but so had the steam engine before the safety valve was invented; and it will be attempted to be shown that the invention of a paper money was as vast a step as from spoken to written language, from manuscript to print.



### CHAPTER III.

Historical View of the Origin of Coin. Etymology of the words "Money" and "Capital." Ancient British Money. Its Representative Character. The Exchequer Tallies of King Henry the First of England. Reduction of the Metallic Standard in Rome and England. Lord Liverpool's Statement. Report of Mr. William Lowndes in 1695. Duties of the King's Exchanger. Effect of the Discovery of the Silver Mines of South America on our Money. Statement of Dr. Davenant. The Monetary Act of 1774. Suspension of Cash Payments by the Bank of England in 1797.

At the date of the Trojan war, the use of money was not known to the Greeks. Homer and Hesiod never speak of gold or silver coin. They express the value of things by saying that they are worth so many sheep or oxen, estimating the riches of a man by the number of his flocks and herds, and the wealth of a country by the abundance of its pastures. Homer values the golden armour of Glaucus at 100 oxen, and the brazen armour of Diomedes at nine oxen. Laertes bought the beautiful slave, Euryclea, for 100 oxen.

Each in exchange proportioned treasures gave,  
Some brass or iron, some an ox or slave.

[ILIAD, Book vii., v. 466.—POPE.]

There was no coined gold in Egypt till the time of the Ptolemies.

Lucan attributes the invention of money to Itonus, king of Thessaly, and son of Deucalion, the hero of the mythological deluge, who re-peopled the earth. Others

ascribe it to Erichthonius, king of Athens, the reputed son of Vulcan, who had been brought up by the daughters of Cecrops. Aglaosthenes gives the honour of the invention to the inhabitants of Naxos. However, the more received opinion is that Phidon, king of Argos, and cotemporary with Lycurgus and Iphitus, first introduced the use of money at Ægina, to enable its inhabitants to earn a subsistence by commerce, their own island being too barren to yield a sufficient supply of cereals.

According to Herodotus, the first people who coined gold and silver were the Lydians. Some historians refer the fact to Demodice, the wife of Midas, king of Phrygia. Darius, the son of Hystaspes, was the first sovereign who coined gold in Persia, and the coins which he struck were called, after his name, Darics, in the same manner as the gold coins of Philip of Macedonia, father of Alexander the Great, were called Philips.

Rettulit acceptos, regale nomisma, Philippos.

[Hor. Epist., lib. ii., v. 23.]

The Persian coins had so little alloy that they were nearly pure gold. The one in Lord Pembroke's collection weighed 129 grains, the exact weight of an English guinea. While Persia was independent the Darics were largely in circulation, but after the Grecian conquest of the country it is supposed they were melted down, and re-coined with the effigies of Alexander. Dr. Prideaux says that in those parts of the Scripture which were written after the Babylonish captivity, the Darics are mentioned under the name of Adarkonim, and in the writings of the Talmudists, under the name of Darkoneth.\*

The silver coins of Aryandes, who was appointed a prefect in Egypt by Cambyes, were of Persian mintage, and, like the Daric, had an indentation on one

\* Beloe's Notes to Herodotus Melpomene, the 4th edition.

side, and the effigies of an archer on the other. The specimens of these silver coins in England weigh from 79 to 81 grains. No doubt, when minted, they were of uniform weight, and the difference is due to difference in wear and tear. They were called Aryandics.

The word "talent" in Homer is used to signify a balance, and, in general, it was applied either to a weight or a sum of money, differing in value according to the ages or countries in which it was used. Every talent consisted of sixty minæ, and every mina of one hundred drachmæ; but the talents differed in weight according to the mina and drachma of which they were composed. When Darius Hystaspes became sovereign of Persia, he divided the whole country into Satrapies or provinces, each of which was assessed at a fixed tribute. The provinces that paid in silver were ordered to take the Babylonian talent for their standard. The Euboic talent was the standard appointed to those who paid in gold; according to Herodotus the Babylonian talent was equal to seventy Euboic minæ, and this estimate is confirmed by Julius Pollux and by Ælian.

The Euboic talent was so called from the island of Eubœa; it is generally thought to be the same as the Attic talent, because Athens and Eubœa used the same weight; the mina Euboica and the mina Attica consisted, each, of 100 drachmæ. In English money, the Babylonian talent amounted to £226; the Euboic or Attic talent to £193 15s. •

It may be observed that the famous treasuries of Attalus and Crœsus only contained gold and silver in the mass, as did those of Alyattes, father of Crœsus. They obtained their wealth from mines in Lydia, situated between Atarna and Pergamos.

Neither gold nor silver was permitted at Lacedæmon. It was a capital offence for any one to have those metals in his house. Plato and Lycurgus thought that of

all the metals iron and brass were sufficient for monetary purposes. Plutarch, in his life of Lysander, tells us of a man named Therax, who, though the friend and colleague of Lysander, was put to death by the Ephori, because some silver was found in his house. This sumptuary law took its origin from an oracle, which affirmed that avarice would cause the destruction of Lacedæmon. Even after Lysander had plundered Athens, and when the Lacedæmonians began to have large amounts of gold and silver, they were only allowed to use precious metals in cases of public emergency, under the penalty of death.

Among the ancients the relative proportion of gold and silver varied at different times.—In the reign of Darius, son of Hystaspes, gold was thirteen times as valuable as silver; in the time of Plato, twelve; and in that of the comic poet Menander, it was only ten. In the epoch of Julius Cæsar, the value of gold to silver fell to nine to one. This arose from the prodigious quantity of gold which Cæsar had obtained from the plunder of cities and temples. It is generally supposed among learned numismatists, that in the gold coin of the ancients one fiftieth part was alloy. It merits attention that when the East was opened to commerce by means of the Persian war, and the great Macedonian expedition to further Asia, gold gradually accumulated among the Greeks, so that in the age of Demosthenes, the precious metals were of nearly five times less value than in the time of Solon.\* Such fluctuations warn us that the continued metallic supplies of gold from California and Australia may occasion its very serious depreciation.

The word “money” is derived from *moneta*, which itself is derived from the verb *monere*, to admonish or advise. The Anglo-Saxon word *monige*, the German

\* An Essay on the Fluctuations in the Supplies of Gold, p. 6. By Alexander Von Humboldt. London, Simpkin & Co.



*muntz*, the French *monnoie*, the Italian *moneta*, and the Spanish *moneda*, are all traceable to the same Latin root as our English word "money." Our word "pecuniary" is derived from the Latin "pecunia," and we learn from Cicero that "pecuniosus" denoted a man rich in flocks of sheep; for he says of such men, "*A pecore pecuniosi appellati.*"

We have borrowed our word "capital" from the Latin. In the language of the Romans, *capitale*, or *capitale*, or *catallum*, all equivalents, denoted cattle. Du Cange, in his Glossary, gives the following explanation of these terms: "*Catallum idem quod capitale. Bona omnia quæ in pecudibus sunt. Ex capitale enim formata vox capitale; et ex capitale, catallum. Gallico, chatel et catel.*" In the progress of society, language loses its primitive acceptation; thus we now confine "chattels" to such dead stock as is movable; but, originally, chattels and cattle had a common root, and expressed what we now understand by the term "capital." They denoted *real money* in those times when bullionists were unknown.

When Britain was subjected to the Romans, no coined money was lawful unless stamped with the effigies of Cæsar. It was *tribute* money, representing a tax to be paid, and was issued by the government in anticipation of such payment. It bought stores, &c., and, when the tax became due, it was taken from the holders in payment of the tax or tribute at the same nominal value at which it was issued. It was a token or symbol of the fiscal relations which existed between the rulers and the ruled. It enabled the former to make their purchases without waiting for the actual receipt of revenue; while it enabled the latter to discharge their taxes in an instrument which they had no cost or trouble in providing. This tribute money was not only impressed with the effigies of Cæsar, but with certain inscriptions indicating real money represented



by symbolic coins. Thus, for greater cattle, they were stamped with the figure of a horse; for less, with that of a hog; for cornfields, with an ear of corn; for a poll tax, with the head of a man.

The coins of the British Prince Cunoboline, were not only stamped with the figures of animals, but with the word *tascio*, which signified task, tax, or tribute. The payment of them into the exchequer acquitted the payer of duties on merchandise, and was a commutation for personal services. "I have thought," says the learned Camden, "that in old time, there was a certain sort of money coined on purpose for this use, seeing, in Scripture, it is called tribute money; and I am the more confirmed in this opinion, because, in some of the British pieces, there is the mint master stamping the money with *tascio*, which among the Britons signified tribute money."

In these historical facts, we have evidence that ALL things of value, capable of being transferred from man to man, were accounted real money, and they were all represented by symbols or tokens, by which devise they were rendered movable in the shape of currency. The real money was the basis and security on which the tokens were issued, and whoever held a token was admonished by it that he was a creditor to its amount on the real money of the country. It may surprise some of our readers to be told that, from the reign of Henry the First down to the establishment of the Bank of England, the legal tender money of England was fabricated out of wood. This wooden instrument was called an exchange tally; but before explaining its nature and use, it is desirable to make some few remarks on the monetary system which prevailed anteriorly to its introduction.

In the earliest periods, all taxes or tribute due to the Crown, were paid in kind, excepting those which were discharged by personal services. He who deli-

vered to the king's receivers or purveyors an animal or a commodity, discharged his tax or tribute in kind, that is to say, in real money; it might be an ox or a war horse, or a measure of corn, or clean straw for the royal bed; but whatever the article, the fiscal obligation was liquidated by such tender. They who had no real money to offer, were acquitted of their obligations by the performance of personal services. To follow the king to battle, to plough his land, or thresh his corn, are instances of this mode of taxation. This primitive system was eminently just, and as little onerous as possible, since, with rare exceptions, every one had in his possession the instrument of tribute, amongst the endless varieties of real money; while they who had it not, could always perform some act of labour, or other personal service.

Henry the First, finding this system inconvenient, so far as payment in kind was concerned, introduced a token or symbol of real money, which received the name of an Exchange Tally. He knew it would have been most burdensome to compel the payment of taxes in gold and silver, because those metals were not found in England; he felt the injustice, when he changed the form of tribute, of aggravating its pressure, by exacting from the cultivator of the soil that which the soil was incapable of producing. He, accordingly, provided the instrument of taxation, with which he purchased all he wanted of his subjects, instead of their delivering in kind what he wanted to the royal purveyors and receivers. When taxes fell due, the king took back the fiscal wooden instrument as payment. He fixed the value of the instrument, which became the unit of account, and received it back at the same conventional value as that at which he issued it.

Mr. John Taylor, in his "Essay on Money," has lucidly described the Exchange Tally, citing for his authority the *Dialogus de Scaccario*, written by

Richard Fitz Nigel, Treasurer to King Henry the Second, and printed at the end of Madox's History of the Exchequer.

“Under our Norman line of kings, tallies of wood were issued, by virtue of which the holder was entitled to receive from the crown the value inscribed thereon; if his claim was satisfied by another, the tally was surrendered to that person, who might sell it in like manner to a third, and so on, till the last holder pleaded it in the Exchequer, as an acquittance of debt to the crown to its nominal amount.—This tally was one half of a four sided rod or staff, on which, in its entire state, the sum it purported to represent was carved in transverse notches, varying in width for thousands, hundreds, scores, pounds, shillings and pence; £1000 was represented by a notch as broad as the palm of the hand; £100 by one the breadth of a thumb; £20 by the thickness of the little finger; £1 by that of a barleycorn; for a shilling the least piece possible was cut out; a penny was marked merely by an incision, no wood being taken away. These signs were for the unlearned. For others, as well as to guard against frauds, the sum was written in ink on two opposite sides of the staff, the notched side not being one; and, finally, with a knife and mallet, the staff was cleft in two lengthwise; one part, called the tally, staff, or cheque, bearing one inscription and half the notches, being given to the person for whose service it was intended; the other, called the *counter tally*, being laid up in a safe place, until its *tally* should be brought in by the person who had last given value for it.”

Such is Mr. Taylor's account of this instrument, and from his description it is obvious that the tally was a symbol. Its *intrinsic* value was no more than the value of the wood out of which it was fabricated,

but its *representative* value denoted large sums. It was a token of real money, and served to distribute real money from man to man by exchange. From this primitive tally was derived the Exchequer Bill, first issued in 1696, by Mr. Montague, then Chancellor of the Exchequer, afterwards Earl of Halifax.

It is curious to trace the etymology between the wooden and the paper instrument. — During the reigns of the Norman kings of England, Norman French was the official and legal language, and in that tongue BILLE means a staff, and BILLET still signifies a small piece of wood. In our times we have the Bill of Exchange and the Bank Post Bill, paper being used instead of wood. In the army a similar etymology may be recognised. Under strict feudalism there was no standing army; the chief tenants, or, as they were styled, the tenants in *capite*, furnished troops to the crown in lieu of rent; but if the king chose to take an officer into his own pay, that officer was said to be put on the STAFF, that is to say, he was paid with Exchequer Tallies; and, at this day, when a soldier is quartered temporarily on a licensed victualler, the soldier is said to be *billeted*, because formerly he tendered to the victualler a wooden tally, with which tally the victualler paid his taxes to the extent of course of the value of the tally. The cheque books of modern bankers are so prepared that a part always remains with the drawer of the cheque, and it is usual to indent it like the teeth of a saw; so that in case of a fraud, the two parts may be brought together again to see if they *tally*.

In all countries which have had a protracted existence, it has been customary to lower, from time to time, the standard of coinage. In the palmy days of ancient Rome a gold coin about the size of an English guinea was the representative and equivalent of twenty



silver coins, each silver coin being equal to twelve of copper or sixteen of bronze; from this money both the French and English derived their divisions and denominations of money. As the population increased and the power of the patricians became greater, enormous quantities of these coins were amassed by those who had the opportunity, and the great bulk of the people sunk into the most abject condition. It then became necessary to reduce the size of the coins. The copper unit sank from a pound weight to the seventy-second part of a pound; the gold coin, which was of later date in its institution, but which at its commencement appears, from specimens still preserved, to have been coined at the rate of thirty-five in the pound weight in the time of Sylla, was brought down, judging from actual coins in the absence of historical information, to forty in the pound weight in the time of Julius Cæsar, to forty-five under Nero, to fifty under Aurelius Antoninus, to sixty under Gordian, and to seventy-five under Constantine, being a reduction of more than one-half of its original value. The silver coins underwent a similar reduction. The *As* was a pound weight of bronze, and originally, that is in the time of Servius Tullius, was equal to one shilling of our money. In the year 322 B.C., it was reduced to twopence or one-sixth of its primitive value; from that time it constantly kept falling, and in the year 86 A.D., it did not exceed the twenty-fourth part of its original weight.\*

In the time of William the Conqueror the English pound was a pound weight of silver, coined into twenty shillings; now a pound is worth less than four ounces of silver, and the pound is coined into sixty-six shillings. Here is the scale of reductions taken from Lord Liverpool's Treatise on coin:—

\* John Taylor.



28th Edward 1st., a pound weight of silver was coined into	20s. 3d.
18th Edward 3rd	22s. 0d.
20th Edward 3rd	22s. 6d.
27th Edward 3rd	25s. 0d.
13th Henry 4th	30s. 0d.
4th Edward 4th	37s. 6d.
18th Henry 8th	45s. 0d.
2nd Elizabeth	60s. 0d.
43rd Elizabeth	60s. 0d.
56th George 3rd	66s. 0d.

In 1695 Mr. William Loundes was ordered to draw up an historical account of practices adopted at the Mint, and from his report the following extracts are taken:—

“That it has been a policy constantly practised in the mints of England (the like having been done in all foreign mints belonging to other governments) to raise the value of the coin in its intrinsic denomination from time to time as any exigence or occasion required; so that in the whole number of years from the 28th of Edward the First until this time (1695) by such variations, the intrinsic value or denomination of the silver is raised in about triple proportion; that is to say, in the reign of the said king Edward the First, a pound weight troy of silver was shorn at twenty shillings and three-pence, and consequently two hundred and forty-three pence or twenty shillings and one fourth of a shilling, or one pound and an eightieth part of a pound by tale, were then coined out of the said pound weight troy; whereas at this day, and for about ninety years past, a pound weight of troy of like silver is and hath been coined into seven hundred and forty-four pence, or sixty-two shillings, or three pounds and one-tenth of a pound by tale, the pound weight troy having then and now the same weight and fineness. And as to the gold coin I need only to observe from the foregoing induction, that in the Eighteenth of Edward the First, a pound weight fine, twenty-three carats, three grains and a-half, was coined into fifteen pounds, by tale;

whereas, at this day (1695) a pound weight of gold of the fineness only of twenty-two carats, is coined into forty-four pounds ten shillings; and this method of raising the intrinsic value of the gold and silver in the denominations of the coins, as it has been constant in the reign of every king, so no inconvenience, disgrace, or mischief (as can be observed) has ever occurred by the doing thereof at any time, when a just, necessary, or reasonable cause gave occasion thereunto."

These variations in the coinage are important, as they show that when the precious metals were scarce, an increasing population and an increasing trade compelled a lowering of the coin, or there would have been no adequacy of circulating medium; and they furnish a fitting answer to the puerile question "What is a Pound?" that answer being that it is a *fixed quantity of gold or silver* at the time *a bargain is made*, but not an immutable quantity at all times and under altered circumstances, which will be more fully dwelt upon when the monetary act for restoring cash payments in 1819 is discussed.

In the earlier period of English history, a public officer existed, called the King's Exchanger. He appears not only to have exchanged the coins of one metal made at the royal mint for those made of another metal; but as the exportation of the coins of the realm was then prohibited, he furnished persons going out of the kingdom with foreign coins in exchange for English coins, and also merchants and strangers coming into the country with English in exchange for foreign coins. This officer had his deputies in many of the outports and principal cities of the kingdom. A considerable profit was made by this practice, of which the king is said to have had his share. When gold coins were exchanged for silver coins, a silver penny of that time was taken in exchange for each gold noble, being the largest gold coin then in currency, and in like propor-

tion for smaller gold coins; and when silver coins were exchanged for gold coins, a silver penny was given for each gold noble received in exchange for them, and in like proportion for smaller coins; and the exchanger is said to have gained  $1\frac{1}{4}$  per cent. When the officer exchanged foreign coins for English, or English for foreign, the exchange was regulated by a table hung up in each of his offices. The last person appointed to the office of King's Exchanger was the Earl of Holland, in the third of Charles I. The head office was in the Mint. Mr. Mushet states that the office of the Exchanger was in the Mint. He certainly had an office in Old Change, a street leading out of Cheapside, which still retains its name.

The discovery of the silver mines of South America, particularly that of Potosi, necessarily affected the value of that metal in relation to gold; but it does not appear to have had any sensible effect on prices in England till after 1570, though the Potosi mine was known and worked in 1550. When the statesmen of England perceived that silver was falling in relation to gold, they prepared to legislate on the subject, and the first movement of this kind was undertaken in the time of Elizabeth, by Lord Burleigh, and it was continued in later years by Lord Bacon, Sir Edward Coke, Mr. Locke, and Sir Isaac Newton. What is called the standard of Elizabeth was established in 1601, by which the ounce of gold was coined into £2 15s. 11d., and the ounce of silver into 5s. 2d. In 1605, gold again advanced, as compared with silver, eleven per cent. Lord Bacon and Sir Edward Coke, then the principal advisers of the Crown, adhered to silver as the national standard, and dealt with gold in the manner presently described. The advance in seven years more was ten per cent. It continued to advance, and by the time of Charles the Second, the advance was thirty-two per cent. By King William's time the ad-

vance was thirty-nine per cent. During all this period of derangement in gold, the course of the government was uniform. Silver money, as already stated, had been coined by the 43rd of Elizabeth at 5s. 2d. per ounce, and gold money at £2 15s. 11d. per ounce. By the 4th of James the First, gold money was lessened in weight by being coined at £3 2s. 1d. In the 9th of James the First, gold money was again altered ten per cent. by proclamation, which brought the ounce of gold to £3 7s. 7d. In the 13th of Charles the Second, gold was coined at £3 14s. 2d, and at that rate it continued, by the mint indentures, until the 3rd of George the First, when the ounce of gold was coined into £3 17s. 10½d. During all this period, silver money was held immutable; the same shilling, the same crown, possessing always the same weight and fineness. But the gold sovereign of the 43rd Elizabeth, coined for 20s. as now, weighed 7 dwts. 4 grains, nearly 40 per cent. heavier than the present sovereign. The sovereign, in four years, was reduced in weight eleven per cent., and called "*An Unite*;"—seven years elapsed and the unite was raised by proclamation to 22s. Then the Laurel was coined at 20s., but in weight having sixteen to seventeen per cent. more metal than the present sovereign. Charles the Second took away from eight to nine per cent. from the weight of the laurel, and called it a guinea; the guinea being fixed at 20s. by the mint indentures passed current among the people for 21s. and 22s. During all these mutations, silver money was never changed; the silver standard, the ancient predominant standard of the country, was retained. To this was entrusted the faith of contracts; on this standard rested the security of property, and gold was dealt with as convenience required.\* It may render this statement clearer if the changes are placed in a tabular form.

\* Speech of Mathias Attwood in the House of Commons, 8th June, 1830.



By 43rd Elizabeth the ounce of gold was coined into	£2	15	11
4th James 1st	"	"	3 2 1
9th James 1st	"	"	3 7 7
13th Charles 2nd	"	"	3 14 2
3rd George 1st	"	"	3 17 10½

This appears to be an appropriate place for asking and answering the question, what is understood by saying that an ounce of gold is worth £3 17s. 10½d? When our ordinance of coinage was fixed in the 3rd of George the First, an ounce of gold was deemed to be the equivalent of fifteen ounces and a small fraction of an ounce of silver, both metals being referred to labour as their true standard of value. "Gold and silver," says Mr. Ricardo, "like all other commodities, are valuable only in proportion to the quantity of labour necessary to produce them and bring them to market. Gold is about fifteen times dearer than silver, not because there is a greater demand for it, not because the supply is fifteen times greater than that of gold, but solely because fifteen times the labour is necessary to procure a given quantity of it." As it has been shown, the ounce of silver was coined into 5s. 2d. by the 43rd Elizabeth, and remained so when the ordinance of George the First was passed. Now the object of the legislature was to retain in the denomination of coinage the same relation of values as existed in their state of bullion. But, as bullion, gold was fifteen times more valuable than silver, and something in excess; therefore, nothing more was required than to multiply 5s. 2d. by fifteen to determine the monied denomination of the ounce of gold, and it amounted to £3 17s 6d. The fraction beyond fifteen amounted to three pence; accordingly, the Bank of England was bound to give £3 17s. 9d. for raw gold, and sell it coined for £3 17s. 10½d., the extra three half pence being in the nature of seignorage.

Before the establishment of the Bank of England, the currency consisted of gold and silver coins, Ex-



chequer tallies, and the notes of the goldsmiths, who were indeed pawnbrokers, lending on the deposits of securities, chiefly plate, for determinate periods. In 1694, the Bank of England was founded, and soon possessed itself of the royal prerogative to issue money. Davenant, a financial writer of the period, contrasts the state of the currency before and after the bank was instituted.

"In 1698," he says, "we had upwards of £14,000,000, in tallies, lottery tickets, bank stock, malt tickets and securities, which went from hand to hand, having their *foundation in the public faith*; and, in this currency, the landlord received his rent duly, and the farmer sold the product of his land at a high price. Wool, tin, leather, and lead bore a high price, and, which was of great consequence, the manufactures of the country went on cheerfully.

Ten years after the commencement of the national debt, when it had reached twenty-one millions, he says:

"Of late, when the coin grew so corrupted, gold and silver did, as it were, but minister in the market, while all great dealings were transacted by tallies, bank bills, and goldsmiths' notes.—Paper credit did not only supply the place of running cash, but greatly multiplied the kingdom's stock. For tallies and bank bills did, to many uses, serve as well as, and to some better, than gold and silver; and this artificial wealth, which necessity had introduced, did make us feel the less want of that real treasure which the war, and our losses at sea, had drawn out of the nation."

At this time the Exchequer Tallies, the representatives of value, having no intrinsic value in themselves, sustained trade; but what happened when the tallies were nearly extinguished, and the monied prerogative of the Crown was transferred to the Bank of England? Let us once more listen to Davenant:—

"The government appeared like a distressed debtor,

who was daily squeezed to death by the exorbitant greediness of the lender; the citizens began to decline trade, and to turn usurers; foreign commerce, attended with the hazards of war, had infinite discouragements; and people in general drew home their effects, to embrace the advantage of lending money to the Government. We are going headlong to destruction with carrying on losing trades with our neighbours. And what has brought us to this low ebb? Certainly, our excises, customs, prohibitions, ill-judged laws, monopolies, and national debts; these are the causes; the effects are lost trades and decaying rents. When *paper credit* flourished, tallies, bank bills, and goldsmiths' notes performed all the offices of money; the great payments for land, or rich goods, were therefore easily made, the king's duties paid, and all kinds of business easily transacted."

We now have reached the period when the Bank of England, a Joint Stock Company of successful adventurers became, as it were, a copartner with every succeeding government. Around this gigantic corporation clustered what is known as the "monied power." The national debt assumed Titanic proportions, and with every augmentation labour became more and more subject to capital.

In 1774, it was ascertained that a considerable portion of the silver coin was deficient in weight, whereupon, in that year, an Act of Parliament was passed, decreeing that "no tender in the silver coin of this realm, for any sum exceeding £25 should be accounted a legal tender for more than the value by weight, at the rate of 5s. 2d. per ounce;" but this Act was purely exceptional, for if the silver was of full weight it was legal tender to any amount. This restraining law expired in 1783, and Mr. Vansittart, when Chancellor of the Exchequer, stated in the House of Commons that, prior to the Bank Restriction Act, "the

interest of the public debt might have been paid in crooked sixpences."

It is, then, an historical fact that from 1601 to 1797, our silver standard was never changed. During the whole of the same period gold was dealt with as public convenience required.—Both metals were a legal tender to any amount, with the exception of the nine years mentioned. It is also to be observed that in those two centuries the exportation of coin was prohibited under severe penalties, and the usury laws were enforced. These two provisions were great protections to the standard; for though the coin was at times smuggled out of the country, the dread of detection operated as a check; and, at any rate, the legislature did all that it could do to keep the instruments of legal tender circulating within the realm.

We now approach the memorable epoch when cash payments at the Bank of England were suspended, and, in this historical sketch, it appears desirable to draw, at least, the outline of the main circumstances which led to that event. The prospects of the country, as Sir Archibald Alison remarks, were of the most gloomy description. Lord Malmesbury had returned an unsuccessful ambassador from France—party spirit was raging fiercely—petitions for a change of ministers, and for an organic change in the form of government, poured into both Houses of Parliament—Ireland was in a state of insurrection—commercial embarrassments were very severe—and an active and constant demand was made on the Bank of England for the precious metals, both for export and private hoarding—the three per cents had fallen from 98 in 1792 to 51 in 1796—in short, that general distrust and depression prevailed, which are at once the cause and effect of prolonged misfortune. So early as 1795, the Bank of England begged the ministers to raise advances required for the public service without its aid, and the difficul-

ties of that corporation became so stringent in 1796, that they were compelled to gain breathing time by paying their notes in sixpences. Mr. Pitt had paid large subsidies to our Continental allies in bullion, which, added to the previous drain on the Bank. In 1795, or two years before the Restriction Act was passed, the Governor of the Bank wrote to Mr. Pitt, informing him that the market price of gold was four guineas an ounce, at which rate the Bank was compelled to buy it; though it was obliged to redeem its notes in gold at the mint rate of £3 17s. 10½d. In 1794 we remitted as subsidies to our allies £2,550,245; in 1795, another sum of £5,724,961. These advances were made in specie; hence gold at home became scarce and dear. The credit of the country was now in jeopardy. Its real wealth, as the results proved, was immense; but its wealth in gold was small. A mode of escape from this dilemma was an imperious necessity; at length, on the 26th February, 1797 (remarkable as being a Sunday) the Privy Council issued an order forbidding the Bank to pay its notes in specie, which was communicated to both Houses of Parliament on the following day. The order in Council was posted on the walls of the Mansion House, and all the leading merchants in the city, publicly convened, declared their readiness to receive the notes of the Bank of England, inconvertible into coin at the mint price, in full payment of debts due to them. Five days afterwards, that is on the 3rd March, 1797, the statute permitting the issue of notes under five pounds, received the Royal Assent, being the 37th of George the Third, c. 28.

It is here necessary to observe that this statute did not make the Bank Note a legal tender, for it did not receive that sanction till the year 1833. It must also be noted that at this period the circulating medium of the country consisted of gold and silver coin, Bank of England notes of not less than £5 (promissory notes of



a less amount being forbidden) payable on demand in gold at £3 17s. 10½d. per ounce, or in silver at 5s. 2d. per ounce, and also country bank notes payable on demand at the same rates.

The Bank Restriction Act of 1797 is entitled "An Act for removing doubts in respect to promissory notes of the Government and Company of the Bank of England, for payment of sums under £5," and its preamble thus explains the object of it, namely, to provide for the deficiency of gold coin, thus:—"Whereas it is expedient for the public service, and for the convenience of public circulation, that the Governor and Company of the Bank of England should issue promissory notes, payable to bearer, for sums of money under £5," and to avoid any doubt as to the validity thereof, it was enacted, that all promissory notes, payable to bearer for sums of money under £5, and other notes for the payment of money, which, since the 2nd of March, 1797, had been or thereafter should be issued by the Governor and Company of the Bank of England, should be as good and valid as if issued for sums over £5; all persons being declared exempt from the penalties to which they ought otherwise to be liable.

This short act was sufficient to relieve the Bank from its immediate necessities, but another was required to make the new issue beneficial to the public; and it is a fact worthy to be noted that the same facility was not accorded to the act for this purpose as to the other. While the first was hurried through the House in a few days, two months were consumed in the passage of the other, as it was not till the 3rd of May that the restrictive measure was completed by the Act 37 George 3, c. 45, entitled "An Act for continuing the restrictions contained in the Minutes of Council of the 25th February, 1797, on payments of cash by the Bank of England."—The preamble of the act is so eminently deserving of attention that it ought not to be curtailed.



“Whereas by a minute of his Majesty’s Privy Council of the 26th February, upon the representation of the Chancellor of the Exchequer, stating that from the results of the information which he had received, and the inquiries which it had been his duty to make, respecting the unusual demands for specie that have been made in the metropolis, in consequence of ill-founded or exaggerated alarms in different parts of the country, it appeared that unless some measure was immediately taken, there might be reason to apprehend a *want of a sufficient supply of cash*, to answer the exigencies of the public service, it was declared to be the unanimous opinion of the Board that it was indispensably necessary for the public service, that the Directors of the Bank of England should forbear issuing any cash in payment of their notes, until the sense of parliament could be taken on the subject, and the proper measures be adopted thereupon, for *maintaining the means of circulation*, and supporting the public and commercial credit of the kingdom, at this important conjuncture. And it was ordered that a copy of the said minute should be transmitted to the Bank of England; and they were thereby required, on the grounds of the exigency of the case, to conform thereto until the sense of parliament could be taken as aforesaid. And whereas, in pursuance of the said minute, the said Governor and Company have since forborne to issue cash in payment, except for purposes for which it was unavoidable; and it is necessary that the restriction contained in the minute, although *not warranted by law*, should be continued for a limited time by authority of parliament.”

The first section indemnified the Bank for every thing done in accordance with the Minute of Council; the second enacted that the notes authorised by the Act of the 3rd March, should be received as money, by providing that it should not be lawful for the Bank to

issue any cash in payment of any debt or demand during the continuance of the restriction, except under circumstances hereinafter mentioned, and conferring powers on the Courts of law to stay actions to recover payment in any other form until the removal of the restrictions, the costs being left to their discretion. The third section declared the restrictions not to extend to sums of money, or fractional parts less than twenty shillings which were to be paid in cash as usual. But the Bank was expressly authorized to issue cash for the service of the Army, Navy, and Ordnance, in pursuance of an order of the Privy Council, stating the special purposes for which such sums were required, and the necessity for it, a copy of this order being required to be laid before Parliament within three days.

Other sections forbade the Bank to advance more for the public service than £600,000 on the credit of Exchequer Bills, but allowed advances in cash to the amount of £100,000 to London Bankers, and £25,000 each to the Bank of Scotland, and the Royal Bank of Scotland. The Bank was permitted to receive cash from any person in sums not less than £500 on an engagement to return any portion on demand, not exceeding three-fourths in cash. A power was reserved, however, notwithstanding these enactments, to issue cash out of any cash coming into their hands subsequently to the 20th February following, in payment of any debts, on giving five days notice to the Speaker of the House of Commons, who was required to insert one copy of such notice in the *London Gazette*, and another to the Exchequer. The duration of this Act was limited to June 24th, 1797. Such is the substance of a statute which, though declared to be only in force for little more than a month, was actually in force for twenty-two years—a remarkable proof of the fallibility of human legislation, and of human foresight.

To make this narrative of the Restriction Act more complete, it may be observed that the short period of six weeks was probably fixed upon in deference to the fears and wishes of others, rather than on any hope entertained by the government that the bank would be able to meet its engagements in bullion at so early a date. Accordingly, before the time expired to which it was limited, another Act, the 37th Geo. 3rd, c. 91, renewed and repeated all its provisions but two,—that permitting an advance of cash for the public service, which the Bank was now forbidden to make during the restriction of cash payments—and that relating to the duration of the restriction which was now extended to one month after the commencement of the next session of Parliament.

Parliament again met on the 30th November of the same year, 1797, but so distant had the prospect become of the Bank resuming cash payments, that an act was immediately passed continuing the above acts, not to any specified date, but “to one month after the conclusion of the present war.” This last act, however, renewed the permission to the Bank to advance money for the public service; though only on the credit of duties to be laid on malt and land tax.

## CHAPTER IV.

Rise of Prices under the Bank Restriction Act. The rise caused by increased taxation not by an increase of Bank Notes. Mr. Huskisson's Pamphlet on the "Depreciation of the Pound," answered by Mr. John Taylor. Definition of the terms DEBASEMENT, DETERIORATION, and DEPRECIATION. The effect of Indirect Taxation on Money considered. Debates in the House of Commons on the Report of the Bullion Committee in 1811. Speeches of Lord Castlereagh and Mr. Canning. John Law's Bank. The French Assignats. The Continental Money of the American Colonies. David Hume. Benjamin Franklin. View of a "Depreciated Pound," taken by Mr. Ricardo, Mr. Tooke, and other Economists. Answered by Mr. Matthias Attwood. The Balance of Trade and the Foreign Exchanges.

PRIOR to the suspension of Cash Payments, it was with extreme difficulty that Mr. Pitt raised a revenue of £20,000,000. This pressure on the industrial class was most severe, provoking discontent and threatening rebellion; but, in 1798, the very year after the Bank of England was exempted from the obligation of redeeming its notes in gold, the revenue was raised to £30,000,000, and collected without a murmur. During the whole period in which the Bank Restriction Act was in force, the prices of all commodities rose prodigiously as compared with the rate of prices that were obtained previously to 1797, the rise being *caused* by the vast increase of taxation necessary to sustain the war, and *permitted* by the paper expansion of the circulating medium. — Of this we have complete evidence in Tables of Taxation, Currency and Prices, ranging over a period of fifty-four years, commencing

in the year 1783, and ending in 1837, compiled by the London Chamber of Commerce. In these tables eighty-eight principal articles are enumerated. All those articles are given *free* of any special duty; the rise or fall of prices, therefore, is independent of *particular* taxation, and can only be explained by the altered amount of *general* taxation, or by some alteration in the principle of the currency. Every article is placed in succession, according to its rise and fall, in comparison with its first price. By this arrangement it is seen at a glance what articles have risen or declined most, compared with prices obtained before, during and after the war. Some of the principal are here enumerated, as a specimen of the whole catalogue: malt, hops, beer, wine, spirits, sugar, tea, coffee, tobacco, snuff, corn, butter, cheese, cotton, wool, silk, printed goods, hides, skins, paper, soap, candles, tallow, coals, glass, timber, bricks. The prices are classified in centesimal proportions, thus:—

1784 to 1790.....	£100
1791 to 1797.....	121
1798 to 1804.....	149
1805 to 1811.....	175
1812 to 1818.....	180
1819 to 1825.....	126
1826 to 1832.....	105
1833 to 1837.....	105

While the Bank Restriction Act was in force during the earlier series of these septennial periods, taxation increased and prices rose in proportion. In the interval from 1797 to 1818, the national debt and the annual taxation were more than doubled, thus fully accounting for the rise in prices; but these were not excessive, but proportionate to the augmentation of fiscal burdens imposed by the government on the productive classes; and since it is admitted by all writers that indirect taxation, be it light or heavy, ought to fall ultimately on the consumer, the producers who received £180 in



the years running from 1811 to 1818, were not better paid than the producers who received only £100 in the period included between 1784 and 1790. The difference between the varying scales of prices was caused by the enormous war expenditure, for which the government was solely responsible. True it is, that the issue of Bank notes increased, but that was also the act of the government, who first gave their Exchequer Bills to the Bank as security for advances, and received the notes of the Bank in exchange for them; and it will presently be shown that those notes were not excessive as Mr. Huskisson most erroneously declared them to have been in his celebrated pamphlet. Our immediate purpose is to remove a popular fallacy which insists that an increase of paper pounds *causes* a rise of prices; it merely *permits* a rise. This distinction is most important, and has been ingeniously and clearly explained by Mr. Edward Capps, from whom the following extract is taken:—

“It is a well known fact, that by the pressure of the atmosphere, water will rise in a vacuum (the barrel of a pump for instance) to about 33 feet. Now, suppose that the water in a certain vacuum had always been prevented by the interposition of a plug, from rising higher than ten feet, it would follow that when this plug was raised one, two, or ten feet higher, the water would immediately rush up and fill the additional vacuum created. Had the plug never been entirely withdrawn, and people had not known what was the *cause* which produced the rise of the water, they might have concluded that the water would rise ad infinitum, and that it was necessary to interpose a limiting power, to prevent it overflowing and deluging everything around. But it is obvious that the removal of the plug was not the *cause* of the rise of the water, but was only that which permitted it to rise; the *cause* was the *weight of the atmosphere*, and ceased to act

when the equilibrium was gained. So, in like manner, the extension of the currency is not the cause of the rise of prices, as many think, but is only that which *permits* it; the cause is the *weight of taxation*, and the rise will cease whenever a price, which will form an equilibrium with the weight of taxation, is obtained. Competition will infallibly prevent prices rising higher than this.”\*

This fallacy assumes another form. It originated with the bullionists during the continuance of the Bank Restriction Act, and maintains its ground to the present day. The assertion is, that notes would become redundant if they were not made convertible into gold at the Mint price. The fallacy proceeds on the false assumption that currency calls mercantile transactions into existence, but the truth is just the reverse, since mercantile transactions call currency into existence. No banker can force his notes into circulation. If a rich and safe customer applies for a loan of £1000, the banker might urge him to borrow double that sum; but the prudence of the customer would decline the additional credit, for why should he pay interest on money he does not want and cannot use? If the customer were speculative, but poor and unsafe, the banker would not discount his bill on any terms, so that in this second case the prudence of the banker limits his own issues. It is demand that creates supply, not supply that creates demand. Notes not demanded remain in the till; therefore they never can be in excess. If a certain quantity of salt be poured into a vessel containing water, the salt will be held in solution; if an indefinite quantity be added, the excess will be precipitated to the bottom of the vessel. So with paper money; whatever amount is not absorbed by commerce and held in active circulation, is returned to the Bank.

In the year 1810, Mr. Huskisson wrote his cele-

\* The Currency Question in a Nut Shell. By Edward Capps, Esq.

brated pamphlet, entitled "The Question of Depreciation Stated and Examined," in which he affirmed that the Bank of England had designedly, with a view to the exclusive benefit of its own proprietary, *depreciated* the pound of account by an excessive issue of its notes. The doctrines of this pamphlet were adopted by the Bullion Committee, and the arguments, or rather fallacies, that it contained, mainly contributed to the enactment of the law of 1819 for the resumption of cash payments. Ever since its publication, the economists of this school have been devising schemes for "regulating" the currency, and restricting the amount of legal tenders, in the face of an increasing population and an increasing trade, their grand policy being to guard against the bugbear of an excess of money. Mr. John Taylor answered Mr. Huskisson in a pamphlet entitled "The Minister Mistaken," and from the two we shall embody the spirit of the controversy.

Mr. Huskisson admits (p. 8) that from the establishment of the Bank in 1694 to 1797 "there had been no interruption to the convertibility of the notes into money, nor any interference on the part of the State, in anything that concerned the issue and circulation of those notes;" and he makes this further admission; "It is but justice to them (the Bank Directors) to remark that they did not resort to this measure till they had tried, and found unavailing, all those means of checking the drain of cash which had been effectual on former occasions."

According, then, to the clear admission of their accuser, the Bank had not committed any fault, and had not been guilty of any excess in their issues, which is the specific charge, up to 1797. The reader will now please to observe that in 1795, or two years before the Bank Restriction Act was passed, the Governor of the Bank wrote to Mr. Pitt, and informed him that gold

in the market was £4 4s. per ounce, though the returns of prices paid by the Bank were not above £3 17s 10½d per ounce; and Mr. Huskisson admits (p. 88) that it did not rise above that level for the next 10 years. These are his words:—"For some years to prior 1808, the price of standard gold was pretty steady at £4 per ounce, and this was the buying price at the Bank."

The question to be determined is simply one of fact, and the fact rests on figures. If the Bank, as charged, did wilfully and designedly extend its issues for the purpose of increasing its own dividends by depreciating the pound of account, the evidence must be found in statistical returns. To this kind of testimony, then, the appeal will be made; but it is of the utmost importance to an inquiry of this nature, to bear in mind that the Bank of England never issued its notes except on the deposit of Exchequer Bills, handed over to it by the First Lord of the Treasury and the Chancellor of the Exchequer; the amount of those deposits regulated the amount of the notes; the Government, therefore, always took the initiative in those monetary operations as a borrower, and its necessities created and governed the issues. If Mr. Huskisson could have proved that the Bank exceeded the amount of Exchequer Bills, he would have made out his case; but the facts are just the reverse, as the following figures will demonstrate:—

*Average Amount of the Unfunded Debt (Exchequer Bills) and of Bank Notes in circulation.*

Seven years inclusive.	Average amount of unfunded debt.	Average amount of notes issued.	Proportion of notes to unfunded debt.
1791 to 1797	£13,172,500	£11,061,000	84 per cent.
1798 to 1804	23,019,700	15,151,100	66 "
1805 to 1811	37,424,400	19,751,700	53 "
1812 to 1818	50,345,500	26,202,900	52 "

From this table it appears that while the proportion of notes to the unfunded debt was 84 per cent. prior to the Restriction Act, that proportion, during its con-



tinuance, gradually fell, and averaged for the whole period only 57 per cent., or one-third less than the proportion maintained during the period when the Bank Directors, according to Mr. Huskisson's admission, conducted their affairs with unimpeachable integrity and discretion. The evidence, therefore, conclusively refutes the charge of the Directors having issued their own notes in excess to swell the profits of their shareholders.

There is another mode of testing the truthfulness of Mr. Huskisson's accusation.

*The Average Amount of Annual Taxation compared with Bank Notes in Circulation.*

Seven years inclusive.	Annual Taxation.	Annual Circulation.	Proportion of Bank Notes to Taxation.
1784 to 1790	£14,490,700	£ 8,574,100	60 per cent.
1791 to 1797	19,036,600	11,061,000	57 "
1798 to 1804	30,146,400	15,151,100	50 "
1805 to 1811	47,436,700	19,751,700	42 "
1812 to 1818	53,195,700	26,202,900	50 "

Here then we have evidence that the Bank, so far from increasing its notes, actually reduced them in proportion to taxation immediately the war broke out; the reduction was from 60 to 57 per cent. before the Restriction Act was passed, and from 57 to 50 per cent. after that time; or reckoning the whole 21 years from 1798 to 1818, the proportion was brought down to 47 per cent., being a reduction of one-fifth. Mr. Huskisson's charge is again refuted by this evidence, which is too cogent to be evaded. Nevertheless, the fact remains indisputably true, that the price of gold in 1808 did rise from £4 to £4 10s. per ounce, and it must be accounted for in some manner. It is clearly to be attributed to the sole act of the government in exporting gold to subsidise its continental allies. The proof will be found in the following table.



*Statement of the Amount of Bank Notes in Circulation, and of Bullion in the Bank of England, from 1806 to 1809, inclusive.*

	Amount of Bank Notes in Circulation.	Amount of Bullion held by the Bank.	Amount of Deposits.
1806, Feb. 28	£17,730,120	£5,987,190	£ 9,980,790
Aug. 31	21,027,470	6,215,020	9,636,330
1807, Feb. 28	16,950,680	6,142,840	11,829,320
Aug. 31	19,678,360	6,484,350	11,789,200
1808, Feb. 28	18,188,860	7,855,470	11,961,960
Aug. 31	17,111,290	6,015,940	13,012,510
1809, Feb. 28	18,542,860	4,488,700	9,982,950
Aug. 31	19,574,180	3,652,480	12,257,180

These tables are taken from Mr. John Taylor's reply to Mr. Huskisson, in his pamphlet entitled "The Minister Mistaken."

At page 366 of Mr. Porter's *Progress of the Nation*, 2nd vol., it is stated that, in 1808, England sent to Spain, Sweden, and Sicily, an aggregate sum of £2,897,873, as subsidies, and this remittance was made in gold. Now this was effected through the agency of the Bank to accommodate the government. By referring to the preceding tabular statement, it will be perceived that the difference in the bullion held by the Bank on 31st August, 1808, and 28th February, 1809, amounted to a reduction of £1,527,240; while in the same period, the deposits were reduced by £3,029,560. It further appears, if we compare the amount of Bank Notes in circulation at the same dates, that the amount on the 28th February, 1809, exceeded the amount on the 31st August, 1808, by £1,431,570. If we add this excess to the £1,527,240, which last represents the reduction of bullion in the periods compared, we shall have £2,958,810; and the loan in the year, as cited from Mr. Porter, were £2,897,873. There is an approximation within a fraction to arithmetical identity, and it proves that the imputed excess in the issues was caused by the Bank lending its bullion to the government, which compelled it to bring an

equivalency of its deposits into active circulation. Be it noted, that in 1808, we remitted as loans and subsidies to foreign powers more than we had done in the preceding seven years, in proof of which we refer to the statement of Mr. Porter, same page and volume already quoted, where it appears that from 1801 to 1807, both included, the aggregate amount was only £2,781,533, being about £100,000 less than we remitted in the single year 1808. Is it then surprising that this sudden and large export of the precious metals raised their price? What other result could have been expected under the law of supply and demand? The unprejudiced reader ought now to be convinced that the charge brought by Mr. Huskisson against the Bank is utterly without foundation. No doubt that gentleman possessed a large and discriminating intellect, and is a deservedly eminent authority in many matters of commerce and finance; but not suffering his mind to dwell long enough on the principles of monetary science, he hastily drew deductions from illogical premises; when he asserted that it was the essence of money to possess intrinsic value, he simply put forth an hypothesis as baseless as the vortices of Des Cartes; and his charges against the Bank of England were as silly as they were unjust.

But this subject cannot be dismissed without some additional remarks. There are three words which the most accredited writers employ in a vague sense, as if indeed they were synonymous; the words are DEBASEMENT, DETERIORATION, and DEPRECIATION, and unless we affix a clear significancy to language, we are almost certain to fall into a verbal dispute. No public man committed the error here alluded to more frequently than the late Sir Robert Peel, or with more pernicious effect.

Debasement means the fraudulent admixture of an inferior with a superior metal, as copper with silver,

or silver with gold; in such a case the *weight* of the coin is preserved, but its *purity* is lost. This is Debasement.

Deterioration results from fair wear and tear, or from illegal clipping or sweating. In this case the genuine weight of the coin is reduced below the standard, though what remains of the metal is pure. Now, it is plain, in the very nature of things, that a Bank note can neither be debased nor deteriorated, for it does not admit of being blended with substances foreign to its character, which is paper; and, however worn, or torn, or dirty it may be, it loses none of its purchasing power from those circumstances.

It remains, then, only to consider the true import of the term "depreciation." Mr. Huskisson and the Bullion Committee after him, affirmed that the Bank of England note was depreciated in the year 1810. This was true in one sense, but false in another sense; so that we must carefully discriminate between those senses. The argument of Mr. Huskisson was to this effect:—Previously to the Bank Restriction Act, a pound note and a shilling would purchase a gold guinea, but during the war it required a pound note and six or seven shillings to purchase a golden guinea. The inference was that the note was depreciated, or, as some American writers phrase it, *pejorated*; that is, become worse through an enfeeblement of its purchasing power. Let it be remembered, in reply to this mode of stating the case, that during the Restriction Act, guineas ceased to be legal tender coin of the realm, the Bank being exonerated from redeeming its notes in gold; guineas, therefore, during this period, were reduced to mere bits of bullion, and were treated strictly as commodities, and in common with all other commodities their price rose and fell in Bank notes under the law of supply and demand. Instead, therefore, of speaking of guineas, let us speak of bits of bullion

weighing, each, 129 grains. This quantity of the metal rose in price, as did the quantity of all other articles under the pressure of increased taxation, which has already been shown on the authority of the tables compiled by the London Chamber of Commerce. Under this view, the answer to the Bullionists is, that they confound the *appreciation* of gold with the *depreciation* of notes, just as the uninstructed peasant confounds the *apparent* movement of the sun round the earth with the *real* movement of the earth round the sun.

But the argument against bullionism is far from exhausted. We have to take into account the effect of taxation on money, as the instrument of exchange. Let us first assume that the tax is direct on property and income, and, for the sake of illustration, fix it at five per cent. On these terms, every person having an income of £1000, would have to pay £50 to the receiver of taxes. This is equivalent to one shilling in one pound. Is this a depreciated pound? In one sense it certainly is, since the effect of the tax is to leave only nineteen shillings where, had the tax not been imposed, twenty shillings would have been left. But no government can exist without taxes of some kind; and in this sense the pound, though fiscally excised, cannot be said to be depreciated; or, if a captious objector insists that it is, he must admit that it arises, not from any inherent vice or defect in the pound, be it gold or paper, but from the obvious act of the government, which certainly has no right to complain of its own act. It is indeed a grave error to suppose a paper currency alone is susceptible of this kind of depreciation, if the term be insisted on. Any currency, of whatever material formed, depreciates in the sense we are now considering, when prices generally rise in it, for these are convertible terms. If we say that goods have become dearer, it is just the same thing as saying that currency has become cheaper;



for in proportion as commodities are dearer in relation to currency, currency is cheaper in relation to commodities.

Let us now consider the case of indirect taxation. It does not take effect on property in its first incidence, but on commodities, in consequence of which every thing rises in price, or rather ought to rise in price. Everything ought to be dearer in proportion to the tax, and therefore money ought to be cheaper in proportion to the tax. When the tax was direct, we have seen the purchasing power of the pound fall to nineteen shillings, when the rate was five per cent.; if it were ten per cent., the pound ought to fall to eighteen shillings. Now, if this were right and inevitable when a direct tax was levied, it ought to be right and inevitable when an indirect tax was levied; for when the form of taxation is changed, it is manifestly unjust, on that account, to throw fiscal burdens on labour by removing them from property. A proper legal tender should, therefore, be fluxional in its nature, because it has not only to represent intrinsic values, but taxation. This afforded protection to industry during the war, and enabled the government to raise loans and additional taxes. The pound was enfeebled in its purchasing power; more pounds had, in consequence, to be given than formerly were given for commodities; hence, profits and wages rose, and they who had advanced the indirect tax to government, levied on food and clothing, raw materials and manufactured articles, recovered that tax from the consumers of the products of their labour. Thus, with a fluxional pound, such as we had during the Bank Restriction Act, the real action of indirect taxation was precisely the same as direct taxation would have been.

But it may be urged, surely some fallacy lurks in this reasoning, since, if prices rose, all things must have become as much dearer to the productive classes,

as they became to the unproductive classes. This is true, so far as the former classes were consumers, but not true so far as they were producers. It needs no proof that a working man always produces more than he consumes, or else there could be no interest on money, and no profit on capital. How much he produces more than he consumes, depends on his particular trade; but it is sufficient for our argument that he does produce more than he consumes. Let him produce five, whatever that may be, and consume one out of the five; on the one he pays the tax as a consumer, but on the four, as a producer, he recovers the indirect tax from the purchaser. But they who consume without producing, pay the whole tax without recovery, since they have nothing to sell as the result of their labour. The rise of prices, therefore, in a paper money, which permits such a rise, is a boon to the working man, as it throws the tax from labour to property, except so far as the working man is himself a consumer, and to that extent he ought in justice to be taxed.

When a man is asked—What is the height of the barometer? he requires to know, before answering the question, what is the pressure of the atmosphere. In a similar way, when he is asked—What is a pound? he requires to know what is the pressure of taxation. As the weight of the atmosphere varies the height of the mercury in the barometrical tube, so does, or so ought, taxation to affect the weight of metal contained in the gold pound. If it required a tax of twenty per cent. on all property to raise the revenue, the gold pound would be fiscally excised of one-fifth of its weight; or, in other words, the gold pound would be coined out of four penny-weights of that metal instead of out of five, and this depreciation, if men will insist upon the term, would exactly measure the national indebtedness. He who receives an income of £1,000, considers himself worth £1,000 a-year; but this is an

illusion, as it depends on the forbearance of the public creditor; should the latter demand payment of the debt, and have the power to enforce the payment; and if the payment required a contribution of 20 per cent. on all property for its liquidation, it is plain that the income of £1,000 would be reduced to £800, since one-fifth would have to be cut off the principal yielding the rent or interest of £1,000 a year. This would not be depreciation, but the payment of a just debt, however long the payment may have been postponed. We are aware that the national debt is treated as a mere transferrable annuity, as the government can only redeem £100 stock by £100 sterling; but this arrangement between debtor and creditor does not invalidate the preceding argument, or its illustration of the fluxional character of a pound.

Mr. Huskisson and the bullionists are in error when they claim invariability for their pound. This is easily shown by comparing the rate of interest at various periods. It is known to have fluctuated since Peel's Bills came into operation, though never before, from  $2\frac{1}{2}$  to 6, 8, and 10 per cent. If at one time the use of £100 for twelve months can be obtained by the payment of £3 per cent., while at another time 9 per cent. is demanded for a similar accommodation, what becomes of the invariability of the purchasing power of the pound? Again; if at one time it requires two sovereigns to purchase a quarter of wheat, and at another time four sovereigns, what becomes of the invariability of the pound as a pretended immutable standard of value? These remarks are designed to apply to the vexed question of "depreciation," but the subject will be more fully discussed, because more conveniently, when we arrive at the Act of 1816. We now proceed in the chronological order of this historical retrospect to some of the leading debates in 1811 on the Report of the Bullion Committee.

Mr. Vansittart, Chancellor of the Exchequer, obstinately denied the depreciation of the pound in *any sense whatever*, although its purchasing power had notoriously fallen during the war, since it then required a pound note and six or seven shillings to buy a guinea. We shall presently see that Mr. Canning alluded to this obstinacy in caustic terms.—Lord Castlereagh put the case of the government in the following point of view, which deserves a most careful perusal.

“The law is clear. No person can deface or melt down the current coin of the realm being standard weight. It cannot, therefore, be converted into the shape of standard bullion to be sold, without a violation of that law, with reference to which the obligation of payment in gold by the Bank must be interpreted to have been contracted. Gold, obtained from coin not of standard weight may be melted down, but it cannot be sent abroad without fraud or perjury, or both combined. The person receiving the guinea ought, therefore, in strictness of law and good faith, to apply it to purposes of internal circulation only, and, so used, there is no reason to presume that it passes at a value, in Great Britain, superior to a Bank note. If the note commands the same value in commodities and performs all the same functions, so far as relates to internal circulation, as the coin, there is no just reason to consider the note as depreciated. Both the note and the coin were intended for *internal* circulation and for *internal circulation alone*. The contingent but illegal profit derived from diverting the coin from its legitimate purpose, is a species of value, which the bank paper never was in equity, or in fact, intended to represent. It is only through the operation of causes destructive of the established system of our standard coinage that this advantage can attach to coin over bank paper. To derive such an



illicit benefit is an abuse, and, so far as it may operate at this moment, to occasion a disparity of value between coin and notes, the difference is very incorrectly stated under the term 'Depreciation of Bank Paper.'

"The Bank of England," continued his lordship, "is not, in its constitution, simply a Bank of Deposit, as the Bank of Amsterdam, where no other value is received than deposits of silver; and for the return of which silver, on demand, to the person holding the note, or receipt of the Bank, there can be no justifiable excuse. But the Bank of England is a Bank of discount, as well as of deposit. It is obvious that the law which makes the standard coin the only legal tender on the part of the Bank of England in discharge of their notes, proceeds on the supposition of a natural state of things. It never could have been intended, under extraordinary circumstances, to enforce impossibilities; and the rights of persons, under that law, must be considered as circumscribed within certain practicable limits. It cannot be the right of a portion of the community, holding such security to press forward for payment, to take a benefit which cannot be partaken of by others similarly entitled. We should never forget that this measure (the restriction of cash payment) by supplying the country with a circulating medium of undoubted credit, proportioned to its wants, has, for the first time, solved the problem of reconciling national prosperity with a state of war. In former contests, the country invariably declined in its commerce, in its revenue, and even in its industry. In this war, whilst our exertions both by land and sea have in extent surpassed all former efforts, the country has risen in manufactures, internal improvement, revenue and commerce, with a velocity which has never been experienced in a period of profound peace. In the American war, its inevitable termination might

be calculated from the decline of our resources; in this war we feel that our resources are augmenting, and that there is no necessary limit to our exertions in point of time, so long as the injustice of the enemy shall leave us no other choice but perseverance in the contest."

Powerful as this reasoning was at the time it was used, and under the peculiar circumstances of the period, it must be admitted that Lord Castlereagh did not perceive that no conventional act of coinage can alter the natural character of gold as a commodity.—Foreigners who come into our market never treat our coin as money, but as a commodity, though it sustains both characters among ourselves; and these must ever be in antagonism, so long as we make a distinction between the *mint* price and the *market* price of bullion.—The impress of the Queen's head or of the figure of Britannia on the sovereign adds nothing to its intrinsic value, the whole of which it derives simply and solely from the quantity of labour it condenses. The ornamental devices and the mint mark merely certify the weight and purity of the coin, thus rendering unnecessary the trouble of weighing and assaying the metal when it passes from debtor to creditor. The conventional character of coined gold, therefore, in no respect supersedes or changes the native character of bullion; it still remains a commodity, merchantable by its own inherent qualities. If the London Goldsmiths' Company were empowered to fabricate sovereigns they could discharge the duty as effectually and as satisfactorily both to ourselves and foreigners as the mint; and their mark would be as authentic a certificate of the weight and fineness of the coin as the mint mark. It is, therefore, plain, that whatever monied denomination may be put upon gold coin by authority, it will always retain its character as a bit of bullion, and in that character its market price will always have a tendency to depart from the mint price.

During the debates, now under review, the bullionists attempted to strengthen their arguments in favour of depreciation, by citing the failure of John Law's paper money, and of the revolutionary assignats of France. Those fallacies are not yet worn out, but are repeated with an air of authority by persons least conversant with even the rudiments of monetary science. It is proper, therefore, to give them a refutation.

John Law, of Lawriston, a Scotchman by birth, established a Bank in Paris, in 1716; in 1717, by an order in Council, the Western or Mississippi Company was created, and, by Command of the Duke of Orleans, Regent of France, during the minority of Louis XV., the Company and the Bank were incorporated. This was an act of power which Law could not resist, and he ought not to be held responsible for the results. They who took shares in the united undertaking were allowed to pay a part of their subscriptions in State paper, which was then at a depreciation of 54 to 60 per cent. A grant was made to the Company, and then to the Bank conjointly, of all Louisiana, then a province utterly uncultivated, and of course of no real value, but it was forced upon Law as the basis of the Company's credit. In 1718 the subscriptions were declared Royal, and thus the government stretched its hands over the whole concern, and John Law at once became a subordinate. The Regent now became the sole proprietor of the shares. Law was made Director, under the Regent and the minor king, and from that time a stroke of the Regent's pen was all sufficient for whatever was to be done. At the end of that year, Banks, dependent on the one described, were established in several great towns. In 1719 the interest of money was reduced to  $3\frac{1}{2}$  and  $2\frac{1}{2}$  per cent., and at last to 2 per cent., thus keeping the value of money in a constant state of fluctuation by contradictory edicts. In 1720, a new edict was issued, commanding that no

corporation or individual should keep more than 500 livres (francs) in specie, on pain of heavy fine and confiscation of cash discovered; and the officers of justice were ordered to make all the inquisitorial visits and searches required of them by the Directors of the Bank.

At an assembly of stockholders, the Regent being present, a profit of 120 millions of livres, and 40 per cent. as the next year's dividend on the subscribed capital, was held out. Then followed a prohibition to all persons in France, corporate bodies included, to keep *any gold whatever* after the 1st of May, 1721, on pain of confiscation. By that date every louis d'or was to be deposited in the bank. On the 21st of May a reduction of one-half of the shares was ordered, and on the 27th an edict was passed to restore the paper to its full value; but all payments at the Bank were suspended. Of course it was not long before the scheme, founded on so shameless a fraud, and which had not any basis, exploded. The premium which the shares at one time bore was so excessive that the value of the whole mass was calculated by M. Neckar, at six milliards of francs, or the gigantic sum of £230,000,000 sterling.

Such is a brief but accurate account of John Law's Bank. Having begun, he was obliged to continue, or a *lettre de cachet* would have immured him in the Bastille, perhaps for life. Every one who knows the history of France at that period, is aware that the Duke of Orleans was one of the vilest of men, and his courtiers the most depraved of parasites and flatterers. They would have raked money from the filthiest kennels. Their Bank was started, after its junction with the Mississippi Company, for the single purpose of swindling, and their paper was no more than the symbol of a lie. It had no representative character whatever, not being backed by any reality.



We now turn to the assignats of revolutionary France. These were first issued on the proposition of Mirabeau, when the Church property of France was confiscated to national uses. At that time fear had either exported the bulk of the gold and silver coin and plate, or concealed it in secret places. The government, thus pressed, issued assignats in which the public service was paid, but agreed to take them back at the same nominal value at which they were issued from the holders, in payment for purchases of the confiscated Church lands. Thus provision was made for their gradual redemption and extinction. They were the *bonâ fide* representative of an equivalent reality, and were called *assignats*, because he who possessed them, on surrendering them to the treasury, had land *assigned* to him in exchange. They may be in some sense compared to English Exchequer Bills, and on their first emission bore a premium of two and three per cent.

But when the king and queen were murdered, and the reign of terror prevailed—when the scaffold daily demanded fresh victims, and the streets ran red with human blood—when ruffianly governments succeeded each other month by month, and all credit and security were annihilated—when assignats were forced into circulation at the point of the bayonet, when no provision was made for their redemption, and when they represented nothing but the worthless signatures of regicides and assassins—then those instruments were not only depreciated, but became utterly valueless.

The rise and fall of assignats is thus summed up by Henry Storch, the Russian political economist:—

“Assignats were first issued by the National or Constituent Assembly, in 1790, to the extent of £48,000,000, the government receiving them back in taxes, and in payment of confiscated estates sold by auction. In 1795, the Convention, being at war with

the whole of Europe, issued them to the extent of £787,980,000, by which the value of 100 francs, in paper, fell to about 100 pence, in copper. In 1796, the issue of assignats under the Directory reached the almost incredible amount of £1,823,160,000. Then an assignat of 100 francs currently exchanged for six sous, or 3d."

In 1790, the assignat was truly and honestly what it pretended to be, the representative of a reality. In 1795 and 1796, it was a fiction and a fraud, representing nothing but the scaffold and the dungeon. It was no longer a monetary instrument, for there was no provision made for its periodical redemption. Every issue was cumulative, and the inevitable result was that the bloated mass burst. A bullionist who argues against the safety of paper money, redeemable from day to day by its conversion into taxes, because the notes of John Law and the assignats were NOT redeemable, is as illogical as he is dishonest.

Let us now listen to high authorities who have advocated the principle of paper money, properly regulated and secured, though not convertible into gold at a fixed price. David Hume, in a letter to the Abbe Morellet, makes the following remarks:—

"In our colony of Pennsylvania, the land itself, which is the chief commodity, is *coined* and passes into circulation. A planter, immediately after he purchases any land, can go to a public office and receive notes to the amount of half the value of his land, which notes he employs in all payments, and they circulate through the colony by *convention*. To prevent the public being overwhelmed by this representative money, there are two means employed; first, the notes issued to any one planter must not exceed a certain sum, whatever may be the value of the land; secondly, every planter is obliged to pay back into the public office, every year, one-tenth of his notes. The whole, of course, is annihili-

lated in ten years; after which it is again allowed him to take out new notes to half the value of his land."

In 1764, before the Stamp Act was proposed in Parliament (which was passed in the next year, and repealed in the year following), Dr. Benjamin Franklin, writing in England in defence of paper money, expressed himself in the following terms:—

"On the whole no method has hitherto been found to establish a medium of trade in lieu of money, equal in all its advantages, to bills of credit, *founded on sufficient taxes* for discharging them, or on land security of double the value for repaying them at the end of the term, and in the meantime made a general legal tender? The experience of now near half a century in the middle colonies (New York, New Jersey, and Pennsylvania), has convinced them of it among themselves, by the great increase of their settlements, numbers, buildings, improvements, agriculture, shipping, and commerce. And the same experience has satisfied the British merchants who trade thither, that it has been greatly useful to them, and not in any single instance prejudicial."

It has already been remarked that "had it been a law of nature that legal tender should possess intrinsic value, the earliest inhabitants of the earth would never have been permitted to apply primitive industry to agriculture, but would have been forced to discover gold and silver before they began to raise food;" and this applies to the state of the American colonies when they were dependencies on great Britain. They must all have perished before California was discovered. We have seen how they flourished with paper money, on the testimony of Dr. Franklin. The celebrated Edmund Burke, in his speech on American taxation, delivered in the House of Commons, 19th April, 1774, corroborates that testimony:—

"Nothing in the history of the world," said that

consummate orator, "is like their progress. For my part, I never cast an eye on their flourishing commerce, and their cultivated and commodious life, but they seem to me rather nations grown to perfection through a long series of fortunate events, and a train of successful industry, accumulating wealth in many centuries, than the colonies of yesterday; than a set of miserable outcasts, a few years ago not so much sent as thrown out on the bleak and barren shore of a desolate wilderness, three thousand miles from all civilised intercourse."

Had modern bullionism prevailed in those times, Burke never would have pronounced this panegyric. The desolate wilderness would never have been converted into the cultivated garden.

During the bullion debates Mr. Canning made an able speech, though he opposed the government, and sided with the opponents of the paper money; but the speech is meritorious and memorable in this sense, that Mr. Canning distinguished between the mint and market price of gold. The following passages are important:—

"If he (Mr. Vansittart, Chancellor of the Exchequer) will consent to let guineas go for what they are worth in the market, he will have a gold currency; he will prevent the exportation of our coin; he will get rid of fraud and perjury; and all this benefit he will purchase at no greater expense than that of being one argument out of pocket. It will then, to be sure, be vain for him to contend against the daily evidence of men's senses, that Bank paper and guineas are, at their present respective denominations, equivalent to each other; but at least we shall have them both, and they may circulate amicably together.—That by no other possible means the coin of the country can be retained in circulation, so long as the precious metal of which it is composed is intrinsically of a value so much higher



than the rate at which it is estimated in our currency—is a proposition of which all experience, as well as reason, establishes the truth. The present state of our law, in the present state of our currency, operates, in fact, as a bounty upon the exportation of our coin. . . . . Independently, however, of these causes, the difference between the real value of the precious metals and that at which it is rated in our currency, would be itself sufficient to ensure us against the continuance of a guinea in circulation. Demand on the continent might be counteracted by demand here; and gold would cease to be a preferable article for transmission abroad from the moment at which it, like other articles, could be sold for its real value at home. But, imprisoned in the coin, and degraded by its imprisonment, gold has an unconquerable tendency to escape from a situation so unnatural, and it would make its escape from such a situation, even although you did not owe the continent anything, and although there were no more demand on the continent for gold than for any *other merchandize*. . . . . The foreigner knows nothing of the value of the currency of any other country, except that a portion of that currency represents, and will procure, in his own country, a certain quantity of the precious metals.”

In this speech Mr. Canning rightly treated gold, whether coined or uncoined, as merchandize in the eye of the foreigner, who cares nothing about the different nomenclatures employed by different countries, as pounds, francs, florins, thalers, roubles, rix-dollars, piastres, &c. To the foreigner, gold is always a mere merchantable metal, neither more nor less. He busies himself with nothing more than its relation to silver as bullion, which he knows to be in the relation of fifteen to one. The late Mr. James Mill thus clearly shows that metallic money is nothing more than a mere bullion commodity:—

“ When British goods, sold abroad, are paid for in money, it is not the denomination of the foreign coin which the merchant regards; it is the quantity of gold and silver it contains. It is its value as *bullion* merely that he estimates in the exchange; and it is in the form of bullion, not of foreign coin, that the gold and silver, when it is in gold and silver that he receives his payment, is imported. The importation of gold and silver, therefore, differs in no respect, from the importation of platinum, zinc, copper, or any other metal. A certain part of it being taken occasionally to be stamped as money, makes not an atom of difference between the cases.”\*

There is another view of depreciation taken up by Mr. Tooke, Mr. Ricardo, and others, which must not be passed over without notice. With those writers the depreciation of paper means an advance in bullion beyond £3 17s. 10½d. per ounce, and they contend that the rate of advance is the measure of depreciation. But it should always be remembered that during the Restriction Act, the Mint neither gave a price nor paid a price; there was, in the most absolute sense, no Mint price at all. The notes of the Bank were not demandable in gold; guineas became a mere merchantable metal, although the government most foolishly made it penal to give more than a one pound note and a shilling for a guinea, and it was for this that Mr. Canning justly reprov'd Mr. Vansittart. The fact, however, remains indisputable, that there was no mint price. The government itself had secret agents who daily bought guineas for the *market* price of bullion, and sent those guineas to the peninsular army. Now, in all the reasonings of Messrs. Tooke, Ricardo, and others of the same school, they illogically referred to an *open* state of the mint; to a state of things in which bullion and money increased and diminished in quantity

\* Commerce Defended. By James Mill.

and value together; and attempted to measure by bullion the value of a money, no more depending on bullion for its increase or its limitation, than upon iron or calico; and of the value of which the one no more formed a measure than either of the two others. The money of the Restriction Act had no connection whatever with the Mint, for we had departed entirely from the metallic standard. The whole reasoning of Messrs. Tooke and Ricardo, therefore, proceeds upon false premises. As already observed, depreciated money, in the honest interpretation of the word, means money lowered in purchasing power, in reference to all things against which money exchanges; consequently, to estimate any alteration in the value of money by a scale drawn from the market price of a *particular* commodity, such as bullion, is false in its principle. During the Restriction Act, the prices of *all* commodities advanced owing to taxation, just as bullion advanced. Wheat at one period trebled in price, but it was never said on that account, that the one pound note had fallen to 6s. 8d. Gold alone was arbitrarily and falsely selected to test the measure of depreciation, and the miserable delusion has continued to the present hour.

This section of our inquiries affords a convenient opportunity for speaking of the Balance of Trade and the doctrine of the Foreign Exchanges, on both of which subjects much deplorable ignorance has been spoken and printed. Our ancestors, in common with the people of other countries, imagined that gold and silver alone constituted wealth. Hence the export of those commodities was rigidly prohibited under severe penalties. Neighbouring nations adopted the same error, so that there was a constant struggle to obtain and keep permanent possession of what were, and still stupidly are, called the precious metals, for in point of usefulness, and as agents of civilization and social

happiness, gold and silver are dross compared with coal and iron. The gradual decline of Spain, which at one time commanded all the gold and silver of South America, and the industrial rise of Holland, which possessed neither in any large amount, were practical proofs of the current mistake, and induced reflecting men to examine into the verities of a doctrine transmitted by their ancestors. The result was, that the old law was repealed, and the free export of raw bullion was permitted, though that of coin was still prohibited. Then arose the dogma of the BALANCE OF TRADE, which was based on the supposition that the excess of exports over imports was always paid to the exporting country in the two metals, or in one of them; from which it was inferred that the annual wealth of a nation, derived from foreign trade, was measured by the excess of its exports over its imports.

“In consequence of these popular notions,” says Adam Smith, “all the different nations of Europe have studied, though to little purpose, every possible means of accumulating gold and silver. Spain and Portugal, the proprietors of the principal mines which supply Europe with those metals, have either prohibited their exportation under the severest penalties, or subjected them to a considerable duty. The like prohibition seems anciently to have made a part of the policy of most other European nations. It is even to be found where we should least expect it, in some old Scottish Acts of Parliament, which forbid, under heavy penalties, the carrying gold and silver *forth of the kingdom*. The like policy also took place both in France and England.”

Although Adam Smith and David Hume demonstrated the fallacy of these silly and pernicious prejudices, they still pervade the minds even of men in authority, and influence the decisions of Parliament.



Chancellors of the Exchequer congratulate the country in proportion as our exports exceed our imports; and unless this cause of rejoicing is to be referred to the old doctrine of the BALANCE of TRADE, which taught that the excess was paid in gold, it is extremely difficult to understand in what source those felicitations originate. Let us examine the soundness of this theory.

Common sense concludes that the aggregate of commodities in general constitute riches; that gold is only one of the forms of riches; and that riches accumulate when the incomings exceed the outgoings. If, in a given time, more water escapes from a tank than enters it, we have only to prolong the time to empty the tank. But if a merchant export produce worth £20,000, and imports produce in exchange worth £25,000 in his own country, he justly considers that he has gained £5,000 by the operation. Now, as a nation is but an aggregation of individuals, it might be presumed that what is true of an individual was true of a nation; but this conclusion is denied by the theory of the Balance of Trade, which affirms that the excess of exports over imports contributes to the riches of a nation and measures the profits of foreign trade.

This dogma was established when gold and wealth were used as synonymous terms, and when the riches of a country were computed by the accumulation of bullion. In those days people reasoned thus:—If, in the course of a year, or any other given period, England sells to France goods worth £100,000, and France sells to England goods worth only £90,000, this excess of £10,000 is remitted to England in bullion, and forms a *permanent* addition to English wealth. Now, assuming that this balance was always discharged in gold or silver, it would not prove the slightest acquisition of gain, since it is clear that a full

equivalent was given for the bullion in commodities, as we exported goods worth £10,000 more than the value of the goods we imported. A nation, therefore, is not enriched a solitary farthing by such an operation as we have described. The error originated in the assumption that riches consisted exclusively of gold and silver — no other commodity being accounted riches.

The theory involves another absurdity. It proceeds on the principle of accumulation; but, to render that principle sound, it should be shown that bullion is *permanently detained* in the country into which it is imported. If a country adds to the number of its houses, bridges, railways, or docks, these become enduring accessions to its REAL WEALTH; but the possession of bullion is transitory. "'Twas mine, 'tis his, and may be slave to thousands." It is exported as *merchandise* whenever it is dearer abroad than at home; and when thus re-appropriated to the purposes of trade, the country reverts to the very same position in which it stood previously to the receipt of the metallic balance.

The theory, then, is groundless; first, because it exhibits no mercantile balance of profit; secondly, because it is based on the false assumption that the two metals alone constitute wealth, while it denies that wheat, coals, iron, and all other commodities are wealth, but affirms that they are merely subordinate instruments by which gold may be secured; thirdly, because it implies that imported bullion may be detained as a permanent deposit.

"Had the apparent excess of exports over imports," observes Mr. McCulloch, "as indicated by the Custom House books for the last hundred years, been always paid in bullion, as the supporters of the old theory contend is the case, there ought at this moment to be about £450,000,000 or £500,000,000 of bullion in

the country instead of £50,000,000 to £60,000,000, to which it is supposed to amount."

The fact is, that the exports and imports must always practically balance each other, there ever being a tendency to equalization, however momentarily deranged by passing fluctuations; and it should be remembered, that though between merchant and merchant an account may be closed within the year, yet between nation and nation the accounts are never closed, so that it is impossible, in the aggregate, to discriminate between the adjustments and renewals of business.

The theory of the Balance of Trade has led to a mischievous abuse of the word "Capital." When the commodity gold leaves the country to purchase the commodity wheat, we are told by the bullionists school of economists that we have become poorer, because we have parted with our *capital*; but surely we have received an equivalent for the gold in the wheat; and having merely *exchanged one capital for another*, our real riches have not undergone any diminution by the mutation of form. We are congratulated on the briskness of trade, when we export large quantities of coal or iron, cotton or calico—how, then, does it happen that large exports of gold, for which we receive a full equivalent, are always attended with mercantile convulsions, and an enormous loss of property? Because we perpetrate the folly of making gold our legal tender in the home trade, and command that home trade to be suspended, or carried on to the loss of the producer, whenever gold is exported. If we really become poorer, as the bullionists contend, by such an operation, common sense would put industry to work with increased activity to repair the loss with as little delay as possible; but the bullionists remedy is to keep our operatives in idleness, as though we could recover our position by closing the factories, blowing out the furnaces, and bringing the steam engine to repose.

Another fallacy, involved in the balance of trade doctrine, arises from an assumption that the profits of foreign trade are paid by foreign nations. When an English merchant buys from the inhabitants of England, a quantity of the surplus productions of their soil and industry, and exports those productions to foreign parts, he receives from the inhabitants of those foreign parts, by the intervention of their merchants, some for the surplus productions of their soil and industry in exchange. These he imports into England, and sells to her inhabitants, and receives from them more for these imports than he gave them for the goods which he previously purchased from them, and exported; and the difference between what he receives for the imports and what he gave for the exports (after deducting from that difference the expenses of the freight, insurance, &c., both of the imports and exports,) constitute his profit. His profit, therefore, is clearly paid, not by the inhabitants of the foreign country, but by the inhabitants of England. The inhabitants of the foreign country have lost nothing by the exchange, otherwise they would not have made it, for all honest and legitimate trade resolves itself into an exchange of equivalents; and the foreign custom house accounts may be, and probably are, so composed as to show a balance of trade, upon the same commodities, in what is called *their* favour. For example, when a merchant sits down to calculate a speculation, he reasons thus: If I send to Jamaica 10,000 yards of broadcloth, which I can buy in London and send to Jamaica for £10,000, and if that cloth will sell in Jamaica for such a quantity of the money of the island as will purchase a quantity of sugar that will sell in England for £12,000, I will do the business. By such an operation the merchant gains £2,000; but who has been his paymaster? Who but the inhabitants of Yorkshire who made the cloth, and the same inhabitants (perhaps the



very same,) or their neighbours in the counties of Lincoln or Norfolk, who consumed the sugar. The merchant in Jamaica who sold the sugar, gave less for it to the inhabitants of Jamaica than those inhabitants paid him for the broadcloth. Who furnished his profit but the inhabitants of Jamaica?

The Bullionists, in urging the doctrine of depreciation during the war, complained that in consequence of that depreciation the foreign exchanges had become unfavourable to England. There is no subject on which more confused ideas exist, than on that of foreign exchanges. In reality this mysterious operation resolves itself into the simple operation of buying of foreigners and selling to foreigners. When the exchange is favourable to England, other countries owe to England more than England owes to other countries. When the exchange is unfavourable to England, she owes to other countries more than other countries owe to her. In the first state of things, English exports are checked, foreigners being unwilling to increase their debt, while imports are promoted that the debt may be liquidated in commodities. In the second state of things, English exports are stimulated, while imports are restricted. If the debt of one country to another is not liquidated in goods, it is discharged in bullion. All these fluctuations have a necessary tendency to correct themselves. They never can, for any lengthened period, exceed the expense of transmitting bullion from the debtor to the creditor country. The true par of exchange forms the centre of these oscillations; and although the thousand circumstances which are daily and hourly affecting the state of debt and credit prevent the ordinary course of exchange from being almost at any time precisely at par, the fluctuations, whether on one side or the other, are confined within certain limits, and have a constant tendency to disappear. What the ebb tide takes

away, the flood returns, and this efflux and reflux is incessant.

Thus much being premised on the general character of what is termed the Foreign Exchanges, it is desirable to impress on the reader a passage already cited from the speech of Mr. Canning:—

“ The foreigner knows nothing of the value of the currency of any other country except that a certain portion of that currency represents and will procure, in his own country, a certain quantity of precious metal.”

In this passage the whole philosophy of the foreign exchanges, so far as the doctrine of depreciation is concerned, is involved. If we choose to enact that our pound note shall only pass for sixteen shillings, or that our gold sovereign shall henceforth contain four dwts of that metal, instead of five dwts, the matter is one of perfect indifference to the foreigner. If he wanted an ounce of gold for his goods, he would price them at five of our pounds, instead of at four of our pounds. It is quite immaterial to him how we deal with each other; we may say that our pound shall only be current at home for ten shillings; he would protect himself by charging us two pounds where he formerly charged us only one pound, and the relation between us and him would relatively be unchanged.

The exchanges are mere simple calculations of the value of our own money denomination, the pound, in the money of other countries.—For instance, the English sovereign is found, on comparing it with the French denomination of money, the franc, to be worth intrinsically 25 francs 20 centimes; or, in other words, 25 francs 20 centime will purchase 123 grains of gold, which is the weight of the English sovereign; while 123 grains of gold will purchase 25 francs 20 centimes. They are, therefore, equivalents—and this relation constitutes the *par* of exchange between London and

Paris. In like manner compared with the money of Amsterdam, the sovereign is found to be worth eleven florins. Now, during the war against revolutionary and imperial France, our paper pound, sinking in purchasing power through taxation, ceased to be worth 25 francs 20 centimes, and gradually fell, till at last it would only purchase seventeen francs, or thereabouts. Did that injure us in our dealings with foreigners? Quite the reverse. It was our protection. Prices rose in our markets, say from four nominal pounds to six nominal pounds, owing to taxation, because paper money permitted that rise. Had the foreigner who sold us goods at that time, received six gold pounds for that for which he formerly received only four gold pounds, he would have obtained six times 25 francs, or 150 francs, for what was only worth 100 francs. But our pound was only worth a little less than 17 francs, and six times that amount was 100 francs. That was our protection, and the foreigner was not injured.—We will put the same problem in another form.

Take a given quantity of wheat, and let its intrinsic value be equivalent to one ounce of gold, or four pounds in a metallic currency; let the wheat, through taxation, rise to six pounds in that metallic currency; in these circumstances let the foreigner import wheat; he would sell it in our market for six gold pounds, because though by the hypothesis it is intrinsically worth only four gold pounds, he has the advantage of selling it at our taxation price. He then calculates what he shall take back to his own country as a return cargo. He finds, on inquiry, that as taxation raised wheat from four gold pounds to six gold pounds, so, in like proportion, it has raised the price of all other commodities fifty per cent. Why, then, should he buy our iron, for example, at £12 per ton, when he can buy an equally good article in Sweden for £8). Why should he

purchase our cottons or calicoes, if he can purchase the same goods at a cheaper rate in Saxony or Prussia? He clearly will not. He is content to *sell* at our high prices, but is too wary to *buy* at our high prices. He ascertains that taxation does not take effect on our gold coin, which is fettered down to its invariable natural price by certain acts of parliament; the consequence is that he leaves our dear goods in our warehouses, and takes away our cheap gold. By this operation he gets one ounce and a half of gold for his wheat, which is only intrinsically worth one ounce of gold, as in the terms of the hypothesis, for the other half ounce is due to taxation, which adds to the cost of production, but adds nothing to the value of the product; and of this taxation the foreigner pays not one farthing. Now, the reader is requested to watch the progress of such an operation. The foreigner has six pounds in our bank notes; he presents four for conversion into the yellow metal, and receives for them one ounce of gold, which was the assumed value of his wheat; but he has two other pounds remaining; he presents them for conversion, and receives another half ounce of gold. Thus he gives us four pounds estimated in wheat, and takes from us six pounds estimated in gold; so that by this operation we lose half an ounce of gold on every quarter of wheat we purchase. This is precisely what would have happened during the war, had it not been for the enfeeblement which took place in the purchasing power of the Bank note. From so ruinous a loss we were only saved by what is stigmatized as depreciation; the unfavourable state of the Exchange, as it was foolishly called, was our protection.\*

We will now present the problem under the different aspect. As we have seen, during the Restriction Act, the price of wheat advanced from four paper pounds to

\* See Mr. Capps' Lecture on the Act of 1844, delivered at the British Hotel.



six paper pounds, owing to taxation. The foreigner sold his wheat, intrinsically worth one ounce of gold, for six paper pounds; he exchanged them for gold at the *market price* of that metal, not at the *mint price*, for the mint price no longer existed. The paper pound expressed taxation, and both the wheat and the gold had advanced from 4 to 6, which of course is the same as an advance from 2 to 3. Therefore the fluxional paper pound, fluxional because it rose or fell in purchasing power, as taxation rose or fell, receded from 3 to 2; that is to say, while nominally passing among ourselves for twenty shillings, its real value, measured in bullion, had sunk to 13s. 4d. Six of such depreciated notes, therefore, would not purchase an ounce and half of gold but only one ounce; the foreign wheat, however, by the hypothesis, was only intrinsically worth one ounce of gold, and to that, but to no more, was the foreigner entitled. On receiving it he was not wronged; in paying it we were not injured; we did not *really* give six for four, but only *nominally*; really we gave four for four; and thus, by paper money expressing taxation, our foreign trade, during the restriction act, resolved itself into a fair exchange of equivalents.

Under such a system the foreigner had no inducement to take away our gold; he had every motive to buy our goods, instead of leaving them in our warehouses, thus practically realising what we have quoted from Xenophon: "Hence merchants are obliged to barter their wares for other wares." How bullionism enables the foreigner periodically to ruin our home trade, we reserve till we examine the theory of Mr. Samuel Jones Loyd, now Lord Overstone.

## CHAPTER V.

Attempts to renew Cash Payments. Letter of Mr. Mathias Attwood to Lord Archibald Hamilton. View of Sir James Graham. The Monetary Act of 1816. Did it fix the Price of Gold in British Coin? Fallacies of the Bullionists on that subject. The Copper Coinage of 1798. Reports of Committees of both Houses of Parliament on the *Market* and *Mint* price of Gold. Testimony of the late Lord Ashburton. The Monetary Act of 1819. Denounced by Sir James Graham. Protested against by the first Sir Robert Peel. Repudiated by the Bank Directors. Its injustice pointed out by Mr. Mathias Attwood. Carried by the suppression of Evidence and the ignorance of Parliament. Retraction of his opinions by Mr. Ricardo. The fall of prices which followed the Act of 1819. Riots in the Manufacturing Districts. The Small Note Act of 1822. The Panic of 1825. Quieted by an issue of One Pound Notes. Abuse of the Country Bankers by the Government. Government Loans to the Manufacturing Districts to avert Revolution. The Reform Bill. Report of the Manchester Chamber of Commerce. Monetary disasters of 1836 and 1839. Fall of the Whig Party through the decline in the Revenue, the consequence of a vicious system of Money.

WE have now traced our monetary system from the suspension of cash payments, to the close of the war at the battle of Waterloo, and arrived at the period when the legislature commenced its efforts to resume cash payments. It has been stated that a pledge was given to restore metallic money six months after the signature and ratification of a definitive treaty of peace, and the bullionists clamoured for the literal execution of the contract. It is here to be observed that this pledge or promise was disregarded at the peace of Amiens, so that constructively it was abandoned; nor was it ulti-

mately carried in the terms of the statute, since it did not take effect till 1819, and even then the Bank was exonerated from a full payment of all its notes in coin till the 1st of May, 1823, though the directors of their own accord anticipated that date, and paid in sovereigns on the 1st of May, 1821. It may be well here to remark that the words, "The Bank Restriction Act," are used properly as a compendious term for that whole system of measures and acts of parliament, commencing with 1793, and ending with 1814, by which the value of money was lowered; as the words, "Mr. Peel's Bill," are used as a compendious term for those other measures, commencing in 1814, by which the value of money was unjustly raised.

Let us now examine the spirit and policy of the resumption of cash payments. In 1793, the national debt stood at £239,350,148. At the end of the war it figured for £864,822,540. The former sum was contracted in gold. The balance, £625,472,392, was borrowed in paper. In one sense it would have been just to merge the whole in the character of the money of the Restriction Act; for the war had become one of defence, and had England become a province of France, there can be no doubt that the whole debt would have been extinguished. To treat the whole as paper, was simply to charge the difference as a premium of assurance against the risk of confiscation. Whoever holds the securities of an indebted government must, in all honour and equity, be considered as responsible for his share of that indebtedness in proportion to his property, precisely in the same sense as the holder of land, shipping, houses, or mines. If it were at any time determined to liquidate the national debt, a tax for that purpose would not exempt the fundholder, who is now compelled to pay the income tax.

But whatever difference of opinion may exist as to the manner in which the debt existing prior to 1783,

ought to have been dealt with, there ought to have been none in regard to that portion which was contracted in the money of the Restriction Act. Certainly the letter of the law ought not to have been complied with. No doubt a man is bound by a law, although he should not know of its existence or meaning. But, as Mr. Mathias Attwood, in his letter to Lord Archibald Hamilton, well observed, "it must be one which the makers of it themselves well understood. It is in that sense in which a law is understood generally in the country, and by those who made it, that any man is bound to understand it, and to know of its existence, and it is in that sense only in which he can be justly made to suffer by it. That act of parliament, the weighty import of which was that, at the return of peace, all the debts and taxes contracted and imposed during the war should be *discharged in money of double value*, was not believed nor intended by those who framed it to possess any such meaning. What they meant was, to secure the return to a standard of a more steady character than that in use; but not to one of a different value. It was denied that the standard which that act provided for the abandonment of, at a distant date, was of a lower value than that to which it proposed to return. The very existence of an act of parliament to return to the gold standard at a distant day, is a conclusive proof that it could not have been understood in that sense in which it is now said that it was justly binding. Could an act possibly have had an existence providing openly and in explicit terms, that at a distant and uncertain day, all debts should be discharged in money of a higher value than that in use?"

The process of government in this nefarious fraud, unparalleled in the annals of crime, was this. During the war, they contracted permanent loans, the lenders receiving, on an average, £60 in three per cent. stock,



the government binding themselves not to pay it off till that stock reached £100. This alone may be deemed a handsome bonus, even had it been paid to a foreign enemy, for it wears all the character of a "ransom." But their generosity or injustice went further. These loans were contracted in paper, not in gold, and the paper was depreciated 33 per cent.. for £60 in paper was only equal to £40 in bullion. As the ounce of gold at mint prices is coined into four pounds sterling, minus a small fraction, £40 represents ten ounces of gold. That was what the fundholders lent; and by the resumption of cash payments they became entitled to receive 25 ounces of gold for those 10 ounces.\*

While the Restriction Act was in force, all pensions and official salaries were raised to meet the depreciation of money. The judges received £5,550 instead of £3,500, while the pay of the soldier, which, in 1792, had been 6d. per day, was raised to 13d. These advanced rates are still enforced; but if it was just to increase salaries while cash payments were suspended, surely it would have been equally just to have reduced them when cash payments were resumed. But they who prided themselves in keeping faith with the public creditor, had no scruples of conscience in breaking faith with the public debtor.

Sir James Graham, before he sold himself to Peel, thus animadverted on the fraud committed in resuming cash payments:—

"It was strange, also when reliance was placed on historical examples, under circumstances totally dissimilar, that the course pursued by other countries, in a state of affairs identically the same, should have been entirely overlooked; for, in France, after the abolition

\* This is the heinous State crime which attaches to the memory of the second Sir Robert Peel, and which the future historian will brand with withering condemnation.

of assignats and mandates, and the re-establishment of a metallic currency, the government ascertained the value of the Louis d'or as compared with assignats at different periods, and in this simple manner, on reference to the given market price of the Louis d'or, at any given time, contracts were reduced to their real value; and more recently, when the French government altered the value of its money to the extent of five per cent. only, it provided by law for a corresponding adjustment of all debts. The United States of America also, when, in the last extremity of their struggle of independence, they resorted to a depreciation of their currency, guarded against the fatal effects of their own measure, by enacting that no bargain or contract for land should be valid, if on a credit of longer term than three days. In the example of France we find retributive justice; in the example of America, prospective wisdom; but in vain shall we seek to discern the slightest vestige of either virtue in the British enactments of 1797 and 1819. Here, by law, we depreciated the currency, and by a solemn resolution of the House of Commons, denied the fact of depreciation. Here, by law, we raised the value of money, and instead of avowing our purpose and preparing for its effects, we mystified the intention and were blind to the results.”\*

When the Louis d'or of 24 livres purchased 600 livres in assignats, it is clear that an engagement made in assignats at that rate was twenty-five times the value in good money. When the Louis d'or was worth 1,200 livres, a contract made in assignats was fifty times the value of the metallic money. In this simple manner, according to any given market price of the Louis d'or at a given time, contracts were reduced to their real value. The eminent French economist, M. Say, considers that the course that ought to have been

\* *Corn and Currency.* By Sir James Graham.

adopted in England was to fix the standard at £5 9s. for the ounce of gold, instead of at £3 17s. 10½d., being a depreciation of 40 per cent., which he considers to have been the fact in 1819. He distinctly says that such a measure was dictated by justice and policy.

On the 2nd May, 1815, the market price of gold in London was quoted at £5 6s. per ounce; but after the battle of Waterloo, the exchange against England rapidly declined, and a bill being passed to continue the restriction of cash payments until the 5th July, 1816, the Bank obtained time to reduce the mercantile value of gold in relation to its own notes; and in January, 1816, gold was brought down to £4 2s. per ounce. In the prices of all other commodities there was a proportionate fall. These reductions were effected by government acting on the circulating medium which was at its highest in 1814, but was reduced to nearly one half in 1816. The consequence was a scene of agricultural and mercantile distress of unprecedented severity. In 1815, the total number of bankruptcies was 1,285; in 1816 they increased to 2,089, being an addition of 55 per cent. in one year. In reference to this period, Sir James Graham asserted, and, as he declared, on the authority of the most competent judges, that the losses sustained by individuals at that period "counterbalanced all the profits of all the bankers during the war." The government became alarmed, and the restriction of cash payments was further extended from July, 1816, to July, 1818. The bankruptcies which, in 1817, had been 1,575, were reduced to 1,056 in 1818, being a decrease of 33 per cent. The national distress began to disappear; in fact, remunerating prices and prosperity were restored, but distress again returned, when it was ascertained that gold was again rapidly leaving the country. Before the close of the session of 1818, the

Chancellor of the Exchequer announced to parliament that it was not advisable for the Bank to resume cash payments in July, 1818, as had been intended, and the Restriction Act was extended to the 5th July, 1819. It is here desirable to fill up the outline of this short but memorable period.

On the 22nd June, 1816, an act was passed to provide for a new silver coinage, and to regulate the currency of the gold and silver coin of the realm. Its first clause repealed the 18th Charles 2, c. 5, which permitted any person, native or foreign, to take plate, silver bullion, or foreign coin to the mint, to be there coined into the current money of the realm of England without charge. It then directed that the pound troy of standard silver, eleven ounces, two dwts. fine, which had hitherto been coined into sixty-two shillings, should henceforward be coined into sixty-six shillings. Clause 11. enacted that in future gold coin should be the only legal tender in payment of debts, exceeding forty shillings. It was falsely pretended that this act and the act of 1819, presently to be noticed, restored the ancient standard; and this palpable untruth has been repeated over and over again in the various pamphlets of Lord Overstone, and the speeches of the second Sir Robert Peel; and no extent of charity can permit us to assign any other reason for so gross a violation of veracity than the deliberate purpose of wilful deception. The ancient standard to which those gentlemen referred was the standard of Elizabeth, A.D., 1601, which allowed the debtor to discharge his obligations, according to his pleasure, either in gold or silver; whereas the act of 1816 restricted him practically to gold, silver being lowered to the character of a subordinate counter, and restricted as a legal tender to forty shillings.

We now come to the vexed question of the fixed price of gold in our coinage, which the bullionists deny,



asserting that the 123 grains in the sovereign are merely a weight to which no price is attached. To expose this stupid and pernicious fallacy, we must quote at some length from the Act of 1816. Clause XIII. is thus worded:—

“And be it further enacted, that from and after the passing of this Act no person shall by any means, device, shift, or contrivance whatsoever, receive or pay for any gold coin lawfully current within the United Kingdom of Great Britain and Ireland any more or less in value, benefit, profit, or advantage than the true lawful value which such gold doth or shall by its denomination import; nor shall utter or receive any piece or pieces of gold coin of this realm at any greater or higher rate of value, nor at any less or lower rate of value, than the same shall be current for in payment, according to the rates and values declared and set upon them pursuant to law; and that every person who shall offend herein shall be deemed and adjudged guilty of a misdemeanor, and being thereof convicted by due course of law, shall suffer imprisonment for the term of six calendar months, and shall find sureties for his or her good behaviour for one year more, to be computed from the end of the six months; and if the same person shall afterwards be convicted of the same offence, such person shall for such second offence suffer one year’s imprisonment, and find sureties for his or her good behaviour for one year more, to be computed from the end of the said last mentioned year; and if the same person shall again offend against the Act, and shall by due course of law be convicted of any subsequent offence, he or she shall be imprisoned for the term of two years for every such subsequent offence.”

Clause XIV. orders that when a person is brought to trial for a second offence, the Clerk of the Peace shall certify the former conviction. Clause XV. takes

away from the party accused the right to traverse. Clause XVI. releases the prosecutor from the obligation of proving the money lawful.

In these clauses it would be difficult to discover a sentence, line, or word, which treats the gold sovereign as a mere weight. They expressly enact that current gold coin shall not be received or paid for more or less than its value, according to its denomination. What can the monied denomination of the sovereign signify, but twenty shillings; The denomination can not mean *weight*. The intent of the Act, therefore, is most plainly that he who gives more or less for a sovereign than twenty shillings, is liable to imprisonment, and the penalty proves that the legislature intended to fix the price of the gold contained in the sovereign.

On this subject the bullionists have put forward the following fallacy. Take say they, a definite quantity of wheat, and call it a quarter; divide it into eight equal parts and call each part one bushel; here they contend there is nothing but weight and division.—Granted. They then proceed thus: Take a definite quantity of gold, and call it an ounce; divide it into four equal parts and call each part one sovereign; here also the bullionists declare that there is nothing but weight and division. But this can not be conceded. There is no parallel between the two cases. On the wheat *no* monied denomination is placed.—The weight of the quarter or bushel of wheat is immutable, but the price fluctuates from market day to market day; the weight *and* price of the ounce, and quarter ounce of gold are both immutable. Therefore the assumed parallel between the two substances has no real existence, and it is demonstrated that while the price of wheat is variable, the price of gold in our coinage is fixed. It is difficult to believe that any man who can realise in his mind the operative significancy of the term “a monied denomination,”

can resist the reasoning adduced; but if such a person is discovered, he might be asked what he takes to be the difference between the mint price and the market price of gold; and it is to be presumed that he would be sorely puzzled to give any answer that did not convict him of error.

The bullionists refuse to listen to the voice of experience. In 1798 a new copper coinage was adopted. By a mere accident the market price of copper then happened to be 16 pence per pound. The bullionists deluded themselves into a belief that an ounce of copper ought to be identical with a penny in money. Accordingly, the copper penny was coined of one ounce, and for an evanescent period the market and mint price corresponded. Loud was the exultation, but short-lived the triumph. Copper advanced in the market to 20 pence per lb. when the bubble burst and the vision vanished. The braziers melted the penny pieces, worth only 16 pence per lb, instead of buying copper at the market rate of 20 pence per lb; and then ceased the equivalency between the legal ounce weight and the legal penny. But this warning, which settled the principle in dispute, was disregarded, though the fact was remembered, for the Report of the Committee of the House of Lords stated that, "unless the market price of gold was so *fixed*, and shall continue to be afterwards, so near the mint price as not to afford a profit upon the exportation of that metal, it has been abundantly proved by past experience that no law can prevent such exportation, and the consequent demand upon the Bank." The Report of the Committee of the House of Commons was to the same effect:—"No accumulation of treasure," it says, "to whatever extent it may be carried, can render the Bank competent to satisfy the demands which will inevitably be made for gold, if the Banks are under an obligation to issue it at the rate of £3 17s. 10½d. per ounce, and if the



parties having a right to demand it can continue to derive a profit of five or six per cent. on its exportation."

This part of the subject may now be dismissed, for the writer has exhausted fact and argument; and he considers it established, both by authority and reasoning, that the price of gold in British coinage is fixed by Act of Parliament.

We have seen in the numerous bankruptcies which took place in 1815 and 1816, evidence of the discredit into which the country had fallen, in consequence of the circulation having been reduced one half, compared with the circulation of 1813 and 1814. In the early part of 1816 the effective circulation of the Bank stood at little more than twenty-five millions; but by the autumn of 1817, the terrified government induced the Bank to raise the circulation to £30,112,661. The consequence was that prices again rose actually to the level of the war, and general prosperity returned, thus refuting the silly idea prevalent among many classes that a state of hostilities had caused the war, the truth being that it was wholly due to the emission of paper money. If historical evidence be demanded to sustain the doctrine, such evidence can be adduced. During the American war of independence, the colonies used paper money, while England retained its metal money. At that period all prices advanced in America; in England no advance took place. In the war against revolutionary and Imperial France, England adopted paper money; France maintained its metal money. Land and all products advanced in England; they maintained an equal level in France, after the suppression of assignats and mandats.—Prices did not advance in England during the American war of independence, nor in France during the war to which we have referred.—From these examples it is evident that taxation lifts prices, and paper money permits or enables them to be lifted.



It has been stated that prices rose in 1818 to the war level, and that rise has been referred to an expansion of legal tender of seven millions over and beyond the amount of circulation prior to the autumn of 1817. It was shewn before the Agricultural Committee of 1821 that, in 1818, wheat was 84s. 1d. per quarter. As compared, not with the consumption of the war, but with the consumption of 1818, taking the large towns of Liverpool, Manchester, Birmingham, Sheffield and Leeds, not only bread, but meat, fell in 1819, 1820, and 1821, that is, after gold payments were ordered to be resumed. The fall in meat in those towns was proved before the committee to have been 15 per cent.; and proved by the most decisive evidence, the diminution of hides being 15 per cent. If any one superficially considers that a fall of 15 per cent. was a proof of cheapness, let him bear in mind that the supply of animal food had declined to the same scale of per centage; and let him further take notice that a petition from Birmingham to Parliament in 1821, stated that less butchers' meat was consumed as butchers' meat fell, showing such a decline of wages simultaneously with the decline of food, as deprived the working classes of that command over commodities which they had enjoyed in 1818, when the supply of the legal tender was ample. The year 1818 was not only a prosperous year for agriculture, but a prosperous year for commerce and shipping. In reply to questions asked by the Committee on Foreign Trade, which sat in 1820, Mr. Tindall, an eminent ship builder, said, that in 1818, the value of ships had recovered from depression; and that there was enough employment for all ships, including the transports discharged after the war, at good freights. Mr. Tooke stated, "in 1818, I had very great difficulty indeed in getting the requisite quantity of shipping." But, in 1819 and 1820, that is after Peel's Bill was passed, ships were again too

numerous for commerce; then Mr. Tooke said, "he could have procured double the quantity of tonnage he desired." Mr. Marryatt, a member of the House of Commons, and a most extensive West India merchant, averred in a speech delivered by him in Parliament in 1820, that a vessel called "The Sesostriis," which cost in 1818, £12,175, was sold in 1820 for £6,300. If this case stood alone, it would be insignificant in support of the present argument; but Mr. Marryatt declared that the rule was universal, of which he cited numerous instances. In fact, during 1818, commerce, manufactures and agriculture all flourished.\* But of this prosperity one more crowning proof may be given. The following statement is taken from the report of the finance committee of 1819, in which it comments on the revenue of 1818:

"It appears that the total revenue of Great Britain, in the year 1818, exceeded the same revenue for 1817 by the sum of £1,705,510; and that the total revenue of Ireland for the year 1818, exceeded that for 1817 by the sum of £192,969, making a total improvement of the revenue of the United Kingdom, as compared with 1817, of £1,898,479; but this comparison will be rendered still more correct, and the result will be more favourable, if the sum of £2,330,531, being the amount of unappropriated war duties received in 1817, be deducted from the income received in that year; and if the sum of £566,639, the amount of appropriated war duties received in 1818, be also deducted from the total revenue received in 1818. It will then appear that an improvement to the amount of £3,662,371 has actually taken place in the permanent revenue of the United Kingdom in 1818, as compared with 1817."

The bullionists, being in possession of Downing

\* These facts are taken from a letter addressed to Lord Archibald Hamilton by Mr. Mathias Attwood.

Street, were obstinately bent on resuming cash payments, though, as we have seen, they had been compelled to postpone the measure from time to time. They urged the Bank to commence an issue of sovereigns to keep up appearances, and prepare the public for the change; and the Bank did issue some in October, 1817. At this very juncture, the French government commenced a series of monetary operations, the object of which was to provide itself with gold. They had borrowed a loan from English capitalists, and as the price of our sovereigns had been fixed, by the act of 1816, at £3 17s. 10½d. an ounce, though the market price of gold in December, 1817, was declared to be £4 0s. 6d., the French agents, of course, took away our cheap gold; the consequence was, that by the end of 1817, the Bank was drained of £1,240,422, which it had been laboriously collecting and converting into coin. This process went on, and by the end of 1818, the Bank had parted with the enormous sum of £6,756,000. Thus were we punished for our folly in fixing the price of gold, and thereby selling it for less than the market price. The preceding account of this drain rests on the authority of Mr. Alexander Baring, whose house contracted for the loan. The following passages are extracted from the evidence he gave before a Committee of the House of Commons, and embodied in their report:—

“In France it appears, by the report of the minister of Finance, that there has been carried to the mint of France in the sixteen months preceding the 31st December, 1818, gold to the amount of 125 millions of francs (being equal to about five millions sterling); and silver to the amount of a little more than three millions of francs. *Of that gold, upwards of three-fourths was in coin from this country;* and this operation has continued during the present year (1819), though the amount of the importations of this year has not been reported.”



This export arose because the Bank was compelled by law to sell its coined gold for less than it was worth, that is, at the *mint* price, not at the *market* price; and if any sceptical reader refers it to the only other cause that could then have operated, viz., an adverse balance of exchange, the crushing answer is, that the balance of trade was in our favour during the whole period, every part of the world being indebted to England. We have seen the Emperor Napoleon the Third act on similar tactics in 1855 and 1856; he has bought our coin at a fraction above our mint price, and drained us of all that we received from Australia. True, he paid a premium for it, and that premium yielded a profit to the London brokers; but how has it fared with our own merchants and manufacturers? Discounts have been raised to them to such a height as to deprive them of all *their* profits by the French operation. How evident, then, is the remedy, and how imperative its enforcement for such a state of things, which may happen at any time that it suits the foreigner, and against which the English can offer no resistance. Treat gold as a commodity, and put it at its *market* price in national paper money. That is the efficient, as it is the sole corrective.

Nothing daunted by their abortive attempts to carry their point, and making no provision for a recurrence of a drain such as that just described, the bullionists persevered in their policy; and in 1819 Mr. Peel's bill was carried. It provided that between the 1st of February and the 1st of October, 1820, the Bank should pay in standard gold for notes tendered to an amount not less than the value of sixty ounces, after the rate of £4 1s. per ounce. Between the 1st of October, 1820, and the 1st of May, 1821, it was enacted that such payments should be made in gold calculated after the rate of £3 19s. 6d. per ounce. Between the 1st of May, 1821 and the 1st of May, 1823, it was ordered



that payment should be made in gold, calculated at the rate of £3 17s. 10½d. Clause 10, permitted the export and melting of the coin, which was a violation of the act of Elizabeth, 1601. The Bank was allowed to anticipate each of the three periods mentioned; but any of the intermediate rates being once fixed, the Bank was not allowed again to avail itself of the prescribed scale. The Bank Directors of their own accord commenced paying their notes in sovereigns on the 1st of May, 1821, and thus this measure was completed.

Sir James Graham, in his pamphlet on "Corn and Currency," thus exposes the machinations by which it was carried:—

"The government, in the course of the year preceding, had resolved to return to cash payments, and with this view it had reduced its debt to the Bank of England, and thereby diminished the paper circulation, both of the Bank itself, and also of the country banks. The approximation of the price of gold to the mint price, in 1819, was effected by these means. Moreover, no less an amount than seven millions of gold coin had, at the instigation of the government, with a view to this measure, been poured into the market at the standard price of the Bank of England; and this operation was in progress at the time when the committee on Mr. Peel's bill assembled. An *artificial* reduction in the price of gold was the consequence; and the committee, and even the legislature were thus betrayed into the error of estimating the extent of the depreciation of paper by the current price of gold. Hence they adopted the fallacy that the paper money was then only four or five per cent. below the value of the ancient standard which they sought to restore. They formed their judgment of the value of money at that time, not by the price of commodities generally, but from the price of a single commodity—gold—with which the government had been tampering, for the express purpose of forcing down its value."

The first Sir Robert Peel, on presenting a petition from the bankers, merchants, traders, and others, of London, in favour of the continued restriction of cash payments, and against the bill of 1819, made the following remarks, showing that the committee were wholly incompetent, or most grossly prejudiced:—

“In looking at the reports which had been published on the subject, he must say that the witnesses were not men likely to give any information to the public, not men acquainted with the state of the country; the last men who should have been questioned if government wanted to arrive at the merits of the case. He begged to state his opinion, that the petitioners were the best judges of such a measure. He would also add, that though they were intimately connected with all that concerned the welfare of the country, the most experienced men, and the best qualified from their connection with our manufacturers and commerce, *yet they had not been examined before the committee.*”

The Bank Directors protested against the Bill, saying that they could themselves meet their engagements perfectly well, but that mercantile industry would be crushed; and, as they had been misrepresented on former occasions, they entered their present protest, lest at some future date, it might be asserted they had acquiesced in so ignorant and ruinous a scheme. To shew that the Act of 1819 was passed in utter ignorance of its character, we must here deviate from strict chronological order, to what transpired in 1832, when Mr. Mathias Attwood was examined before the SELECT COMMITTEE on the state of Agriculture. That gentleman was asked, “Do you remember what was stated at the time in Parliament on that subject—that the Act of 1819, would not alter prices more than four or five per cent. at the utmost?” Mr. Attwood gave this answer:—

“It was never stated that the abolition of the silver

standard would alter prices at all. It was stated, with reference to the Act of 1819, which established the present standard, that this would alter prices to the extent of four, or perhaps five per cent. A member of the Committee of 1819, stated in his place in the House of Commons, nine years after that time, that he, as a member of the Committee, was entirely misled as to the character of the measure which was founded on its recommendation and report. He stated that, in his belief, every member of that committee was similarly misled; he addressed himself to the Chairman to ask if this was not so; he stated that the Committee, entirely inexperienced in such matters, were misled by witnesses perfectly uninformed, who talked of a fall of prices of four or five per cent., when it was since rendered undeniable that a fall of prices had been produced, and an alteration in the value of money, not of four or five per cent., but of twenty, thirty, or forty per cent; that if the character of that measure, the Act of 1819, had been known to him he would not have voted for such a measure, or supported it in the House or in the Committee, nor did he believe that any one member of the Committee, knowing the character of the measure, would have supported it, or that the Chairman of the Committee would have done so."

Mr. Attwood was then asked whether Mr. Robert Peel was not the Chairman alluded to? The answer was "yes, He was present, and made no answer to that statement. It was Mr. Bankes who made the statement. Another member of the House of Commons, Sir James Graham, put a question to the Chairman of the Committee (Mr. Robert Peel) in the House, immediately after the statement of Mr. Bankes, whether he contradicted that statement, and he gave no contradiction."

We return to the year 1819. Not one word was



said in debate of that clause in the Suspension Act which pledged parliament to restore cash payments six months after a definitive treaty of peace. It was felt that such a pretention, several years after peace had been signed, was ridiculous. The reasoning of the bullionists was of a very different character. As their spokesman they put forward Mr. Ricardo, a gentleman largely engaged in stock exchange operations, and who was looked up to as an authority on trade and finance, he being the author of some able works on political economy. He gave it as his opinion that the return to cash payments would only lower prices about four per cent., and he was believed as an oracle is believed. This fall was so trifling that all effective opposition ceased. Mr. Baring, Mr. Attwood, and Mr. Ellice, warned the House that the fall would be at least 25 and probably 50 per cent., but their counsel was unheeded. But it must be stated in justice to Mr. Ricardo, that he afterwards had the magnanimity to confess the gravity of his error, thus favourably contrasting with Peel, whom a false pride, or some motive still more unworthy, rendered obstinate and callous. On Mr. Western's motion in 1823, Mr. Ricardo said that he had computed the whole rise in the value of money since Mr. Peel's act at ten per cent., but at the same time avowed that he had very little ground for forming any correct opinion on the subject. "By comparing money," he said, "with the standard value, we had certain means of judging of its depreciation, but he knew of none by which we were able to ascertain with certainty alterations in *real* or *absolute* value.

In his "Protection to Agriculture," Mr. Ricardo makes a similar admission in the following words:—

"That it is a question exceedingly difficult to determine what the effect has been on the value of gold, and consequently on the value of money produced by the purchases of bullion made by the Bank. When



two commodities vary, it is impossible to be certain whether one has risen or the other fallen; there are no means of approximating to the knowledge of the fact, but by a careful comparison of the value of the two commodities with the value of many other commodities."

Mr. William Ward, formerly one of the members for the city of London, published the following curious and interesting details in his remarks on the "Commercial Legislation of 1846:"—

"Mr. Ricardo was asked, in 1819, why the reduction of four millions of notes had not corrected an unfavourable exchange? His answer was, 'It ought to have done so, and would have done so, had not counteracting causes, of which I know nothing, and could know nothing, operated.' He was afterwards asked whether a reduction of five per cent. in prices and currency might not be greatly embarrassing after speculation, stagnation, &c. His answer was, 'An alteration in value of five per cent. does not appear to me very formidable, but of this matter I do not profess to know much. I have had very little practical knowledge upon these subjects.' It is most remarkable that on this very point Mr. Ricardo was in reality greatly mistaken. When asked what the effect would be on the price of commodities by a reduction of Bank issues, his answer was, to the amount of about five or six per cent., being the excess of the market over the mint price of gold. Mr. Ricardo lived to change his opinion, and shortly before he died, expressed that he had done so. The late Sir William Heygate was with him, when he said 'Ay, Heygate, you and the few others who opposed us on cash payments have proved right. I said that the difference at most would only be five per cent., and you said at the least it would be twenty-five per cent.'"

Thus it appears that the Act of 1819 was condemned

by its chief promoter; and it will be remembered that Mr. Bankes, a member of the committee which had recommended the House to pass it, declared that it was passed under a complete misapprehension of its nature and consequences. These facts are important; they refute the silly assertion that the currency question is settled, and furnish the strongest argument in favour of a serious reconsideration of the whole of our monetary system.

Immediately on the passing of the Bill, prices began to fall. Those persons were fortunate who obtained £75 for what had previously sold for £100. Profits and wages rapidly and extensively declined. Riots broke out in the manufacturing towns. The Luddites attributed their sufferings to machinery, and destroyed it when they were able. Large meetings were held, demanding parliamentary reform as the proper cure for the evils endured. To aggravate the pressure, and add fuel to the flames of discontent, three millions of fresh taxation were imposed. The agricultural labourers now emulated the mechanics of towns, burning corn stacks and hay ricks, for which some of them were hanged. The harvest of 1821 and 1822 proved abundant; wheat fell to 43s. 3d., and the ruined farmers petitioned for agricultural relief. Government, infatuated with bullion errors, and spurning the idea that any distress could arise from the resumption of cash payments, attributed all the misery of which the farmers complained to the extraordinary productiveness of the crops. Such ignorance and impiety are scarcely credible, but the fact is not to be disputed, as the parliamentary debates in Hansard attest; nay more, the walls of parliament rang with approving cheers when the doctrine was enunciated. However, the ministerial triumph was short. Not only were the English labouring classes unable to obtain bread in the midst of this imaginary over-production, but quickly

news arrived that there was a famine in Ireland. Subscriptions were raised; every pulpit, by royal command, was put into requisition to solicit alms, and the bubble of over-production burst.

The contraction of money, which had caused the crisis of 1816, produced in 1822, a recurrence of distress, failures, and general embarrassment; and as in the former, so in the latter period, relief was afforded by expanding the circulation. On the 29th April, 1822, Lord Londonderry gave notice of the introduction of the SMALL NOTE ACT, which was a modification of the Bill of 1819. Among other obligations which the new system imposed on all bankers, was one which bound them to pay cash on demand for all their notes, and to discontinue the issue of paper for any sum under five pounds, after the year 1824. The Small Note Act removed that obligation, and private bankers were permitted to issue one and two pound notes. Four millions were added to the circulation. There were loans to government, loans to parishes, loans to landed proprietors, loans to public works. Thus the crisis of 1822 was averted, by an addition to the circulating medium. Country Bank paper was greatly enlarged. The Bank of England pushed out its notes in all directions. It lent on mortgage and on stock; it purchased the dead weight annuity, and made advances to government to pay off dissentients on the conversion of the five per cents. into four per cents., and granted a loan of two millions, at two and-a-half per cent, to the East India Company. In 1825 the circulating medium exceeded, or nearly so, by 50 per cent., the amount that was in circulation in 1823. This was the epoch of "Prosperity Robinson," now Earl Ripon. On opening parliament in 1825, his Majesty said, "There never was a period in the history of the country, when all the great interests of society were, at the same time, in so thriving a condition." But the sunshine

was soon to be succeeded by the murkiest gloom. As all our goods had risen in price, from the pressure of indirect taxation, and that expansion of paper which permitted the rise, they became dearer than untaxed gold, which the statute had tied down to the barter level of £3 17s. 10½d. per ounce. The foreign merchant, therefore, to whom our gold was not money, but a commodity, took away the gold as merchandise, because it was the cheapest commodity he could find in this country, and to him the most profitable. This drain caused the panic of 1825. One eighth of the English country banks were ruined, and six of the London Banks stopped payment. The increase of the circulating medium, which had been progressing for two years, was annihilated in a few weeks. The aggregate losses of the nation would have redeemed at least two-thirds of the national debt.

Lord Liverpool, prime minister, gave the following account of this catastrophe, in February, 1826. "In March, 1825," said his Lordship, "the Bank saw the necessity which was pressing on them, and they then did begin to draw in and reduce their issues. In the month of March, they reduced their issues by £1,300,000; between the 15th March and 15th May, they made a reduction of £700,000; between August and November, they further contracted their issues, making altogether a reduction of £3,500,000 in their issues." This avowal, as Mr. Mathias Attwood remarked in the House of Commons in 1830, explains the whole mystery of this monetary convulsion. "The measures of relief, by the issue of four millions of government paper, commenced in the distress of 1822; the notes were drawn back in 1825; the last of them in November, 1825, and early in December broke out the panic."

Government, of course, accused the bankers of creating all the ruin. But the truth is that the bankers



merely furnished the paper instruments which *permitted* prices to rise to the level of taxation; and had not parliament fixed the mint price of gold, gold would have risen with all other commodities, in which case no temptation would have been held out to the foreigner to take our gold instead of our goods. But the act of parliament offered the foreigner a premium to abstract the metal, and ruined the industrial classes by its egregious folly. However, the legislature, too obstinate to acknowledge its own blunders, or too conceited to imagine that its pretensions to wisdom were less than perfect, determined to wreak its vengeance on the innocent. The absolute suppression of all the small notes in three years, and the immediate suspension of the issue of any more stamps, were the first measures introduced and sanctioned by parliament, although the law had guaranteed the issue of such small country notes up to 1833. As to the ruined manufacturers who petitioned and remonstrated, they were flip-pantly told that they had brought all the mischief of which they complained on themselves, by producing excess of commodities. We have already seen that agricultural suffering in 1821 was attributed to a superabundance of corn, which was refuted by an Irish famine; a kindred sagacity, in 1826, ascribed the prostration of manufacturing industry to over-production of clothing; but before the ensuing winter was over, the very ministers who had propounded the worthless doctrine were compelled to send old army clothing to the very people whose skill and toil had been deemed worthy of parliamentary censure for having overstocked the world with linen and calico, woollen and blankets. This same government, when it ordered appeals to be made in the churches and chapels to assist the spinners and weavers, so strongly reproved for their ignorant and suicidal activity, officially declared that places containing two hundred

families, in the very heart of the manufacturing districts, had only four blankets among them!

We wish to impress on our readers that this memorable panic arose solely out of the want of a single commodity—gold. All other commodities were plentiful. The prosperity of the country is attested by the speech from the throne at the opening of the Session of 1825, already mentioned. “There was, literally,” says Mr. Francis, in his *History of the Bank of England*, “a whole population, *with food in abundance staring them in the face*, unable to procure it, as nothing but gold would be taken.” “Many a firm of unimpeachable honour and unquestionable solvency was compelled to bend before the storm. It was remarked that the question would soon be, not who goes, but who stands; It was stated that the distress arose from want of confidence in men able to pay 40s. to 50s., and 60s. in the pound.” The terrified and stupified government ordered the officers of the mint to coin sovereigns with all possible despatch; they worked night and day, and during the space of a week, one hundred and fifty thousand were manufactured every twenty-four hours. But this activity did not stay the panic or remove the pressure; and the reason is obvious. It was not a question of quantity that was involved, but one of price. The sovereigns were still kept down at the mint price, and being cheaper than other commodities were exported as fast as they were coined. The operation did not help British subjects, but enriched foreigners. Nothing could have averted the ruin that ensued but putting gold at the market price, for that alone could have checked the exportation of the metal. As a striking proof that stagnation was complete and confidence utterly lost, it may be stated that no one would purchase Bank Stock or East India Bonds. Exchequer Bills, that species of Government paper for which the whole resources of the empire were responsible,

fell to a discount of sixty-five shillings. We are told by Mr. Francis, that "owing to the difference in the money and account prices of consols, those bankers who were compelled to sell stock to raise cash, paid at the rate of 72 per cent. for the necessity." It cannot be too often repeated, that all this calamity was caused because parties, possessing abundance of valuable commodities, could not convert those commodities into gold, or printed bank notes payable in gold, Peel's Bill having offered a high premium to foreigners to export the coin.

On the subject of the panic of 1825, Mr. Jeremiah Harman, who had been Governor of the Bank of England, was examined before the Secret Committee on the Bank Charter in 1832, and his evidence is too important to be overlooked in this historical sketch:

"Question 2220. Did the government recommend to the bank an increased issue of one pound notes at the time? Whether they recommended it or not, may admit of a doubt; but that they encouraged it is most certain."

There we have proof that the bullionists had no faith in their own doctrines; they sought safety in the very paper they had repudiated, though, as Mr. Harman declares, they refused the application of the bank for an Order in Council to restrain payments in gold. Had the bank issued more paper, as the government encouraged it to do, without the protection of an order in council, their bankruptcy must have been inevitable. What is to be thought of such administrators of public affairs, who desire the end but refuse the means? But we must proceed further with Mr. Harman's evidence.

"Question 2230. It was stated by the late Mr. Huskisson to a member of the House of Commons, that he, as a member of the administration at that time, suggested to the Bank that if their gold was exhausted,

they should place a paper against their doors, stating that they had not gold to pay with, but might expect to have gold to recommence payment in a short time? There was such a suggestion."

Here is another remarkable proof of the utter incompetency of those men to whom the interests of the community were confided at that period. Their only device for sustaining the credit of the Bank of England was to placard the doors with "Call again to-morrow." Had that insane course been taken, it is highly probable that the panic would have been aggravated into a revolution. Every debtor might fairly have claimed the same privilege, and the whole country would have been thrown into a state of commercial anarchy. And now let us see how the nation was saved from the consequences of blundering legislation and ministerial incapacity.

"Question 2232. The Bank issued one pound notes at that period; was that done to protect its remaining treasure?"

Decidedly, and it worked wonders; it was by great good luck that we had the means of doing it, because one box, containing a quantity of £1 notes, had been overlooked, and they were forthcoming at the lucky moment."

Question 2233. Had there been no foresight in the preparation of these notes? None whatever, I solemnly declare."

"Question 2234. Do you think that issuing the £1 notes did avert a complete drain? As far as my judgment goes, it saved the credit of the country."

At this juncture, Mr. Huskisson declared that the country was within twenty-four hours of barter. So, then, the despised paper, the vituperated rags, the out-cast flimsies, rescued the country from a state of barter, and, probably, kept mitres and coronets on the heads of bishops and peers. For aught that can be



affirmed to the contrary, they may have preserved the monarchy.

In a letter written in 1826, by the Earl of Liverpool and Mr. Frederick Robinson, Chancellor of the Exchequer, now Earl Ripon, the crisis of 1825 was mainly attributed to speculation, fostered by the country bankers, a charge as stupid and as groundless as the over-production of food in 1821, and the over-production of clothing in 1826. Mr. Harman was referred to that letter and asked if he concurred in the opinion it expressed; he answered most decidedly in the negative. The truth is, that any continuance of internal prosperity is incompatible with gold money fixed in price at the barter level. In 1825, every labourer in the country was fully employed at good wages, and the profits of the employer were equivalent; consequently, goods became dearer than gold, and, of course, gold was exported, the foreigner taking our cheapest article in payment for his imports. Then the whole monetary system collapsed.

It is difficult to believe that the Earl of Liverpool was not fully conscious that the system he upheld was false and ruinous, or ignorant that the contraction of the circulating medium had produced all the mischief, since he immediately adopted measures for expansion; but he had not the high-mindedness to confess his error, as Mr. Ricardo had done. He addressed a letter to the Bank of England, in which he observed, "that under all the circumstances of the present distress in the city and country, it appears to us that it would be advantageous, with a view to public and private credit, if the Bank were to give directions for the purchase of Exchequer bills to the amount of £2,000,000." This recommendation was complied with, and some relief was afforded. Joint stock banks were then proposed, and the Bank of England established branches in the country. It was next determined that the Bank of

England should advance money on the security of goods, to an amount not exceeding three millions. All these measures prove that the contraction of legal tender had prostrated industry; and, indeed, the nature of the remedy shows the nature of the disease. Assistance was rendered to the following manufacturing towns in the following proportions:—

Manchester .....	£115,490
Glasgow .....	81,700
Sheffield .....	59,500
Liverpool .....	41,450
Huddersfield .....	30,300
Birmingham .....	19,600
Dundee .....	16,500
Norwich .....	2,400

The body politic and the body commercial, as well as the body natural, are all left languid after protracted disease. It requires time to recover from a state of torpor or prostration. In reference to monetary affairs, in spite of the new measures to which we have alluded, a gloom rested on business. Men did not know the secret enemy which had trodden them into dust, and became apathetic, discontented, and then revolutionary. Wages and profits were kept down at the barter level. Every cause was suspected but the right one. At length the pent-up passions burst forth; the whole blame was thrown on the rotten boroughs, and the people, convinced that they were on the right scent, united and energetically demanded a reform in parliament. There was more danger of a levelling revolution than the statesmen of the day chose to confess. The Duke of Wellington, still popular as a soldier, became odious as a politician. The King had accepted an invitation to dine with the Lord Mayor at the Guildhall, but when his Majesty heard, that on the occasion of this intended visit, all the walls of the city would be placarded with an exhortation to the

public, to "Run to the Bank for gold," he determined to remain at the palace. But the placards told; the Bank was besieged, and its specie reduced to about five millions. This panic of 1832 arose from causes purely political, but those causes were themselves of a secondary character; for the demand of parliamentary reform was obviously traceable to the fall of prices and the contraction of trade, which not only lowered profits and wages, but drove hundreds of thousands out of work into compulsory idleness. It was Peel's act of 1819 that called the political unions into existence. Who organised them? Thomas Attwood, the brother of Mathias, from whose writings we have so frequently quoted. Why did he organize them and threaten to march at the head of 400,000 men, bivouacked at Birmingham, as the point of departure, to London? Because he knew that the true remedy for industrial prostration was monetary reform, which he could not expect from the pledged hacks of the legislature, pledged to cash payments, and who were compelled to vote as the holders of rotten boroughs commanded. He had hopes, reasonable hopes, that if the large towns were admitted within the parliamentary pale, they would send to the House of Commons commercial men who understood the money juggle, and abolish the iniquitous bill. He was no revolutionist, but a wise conservative; a wise physician who desired to purge the body politic of its peccant humours, and infuse fresh and healthy blood into its putrescent veins. True, he was deceived and disappointed; the new constituencies and the new representatives were as ignorant as their predecessors, and as subservient to the worship of the golden calf.

The reform bill passed in 1832. Men of business then became more active and enterprising, thinking they had entered into the promised land. Speculation, in 1834, directed itself into channels of railways and

mining, joint stock banks and foreign loans. But no sooner did activity begin than, as the inevitable consequence, gold began to escape from the Bank cellars. By June, 1835, the full effects were manifested. Compared with 1833, the specie had declined nearly five millions. But Bank of England notes had been declared legal tender by the charter of 1833, for all sums above five pounds, except at the Bank of England itself, and at its provincial branches. That establishment therefore increased its note circulation by five millions, and at the same time refused to discount any paper drawn or endorsed by any joint stock banks of issue. This determination was enforced in 1836, and in that year the Manchester Chamber of Commerce affirmed that the loss on cottons, wool, silk, linen, and hardware amounted in Manchester alone to forty millions. However, in spite of this loss, the metropolis of the manufacturing districts is one of the strongholds of bullionism. It is fond of money that "rings on the counter." The admirers of the solidity of gold, and the practical men regard paper as a fiction or shadow, if not "a mockery, a delusion, and a snare." The Chamber of Commerce published a report in Manchester, on the 12th December, 1839, about the losses the town had sustained in 1836, in which the authors of it showed themselves utterly ignorant of monetary science, for they attributed all the calamity they had suffered to the Bank of England, instead of to those acts of parliament which the Bank of England had vigorously opposed. The following introductory remarks preface the report:—

"It is little more than two years since this Chamber was assembled on a similar occasion to consider the sufferings which the country was labouring under in consequence of a commercial panic. At that time resolutions were adopted by the Chamber, that those sufferings had come over the country while we had been



in possession of the blessings of peace, ample harvests and mitigated taxation, but they resolved that they were unable to find a *rational cause for this adversity* among those blessings. The recurrence of another period of distress so soon after the last has naturally directed the attention of this Board to the causes of those frequent panics which were paralysing trade, suspending our commerce, and bringing distress upon the whole community; and the directors might, as their predecessors had done, resolve that they were unable to find any general cause for the recurrence of adversity. But they felt that it would be departing from their duty if they took such a course. They found there were causes, and that those causes were the erroneous management of the currency by the Bank of England."

It is plain, from this exordium, that these acute and experienced merchants had made but a very imperfect study of monetary legislation. Their predecessors frankly acknowledge that they knew nothing of the matter, honestly confessing their ignorance; and as they were among the most intelligent members of the town, it may be presumed that up to the date of their administration no light had shone upon the darkness of Manchester. Panics, however, were not a novelty. They had periodically occurred since the earliest attempts at resuming cash payments, but the Directors of the Chamber of Commerce had never been able to trace them to the true cause. It is, however, very remarkable that, in the report now under consideration, the real nature of the disease is distinctly pointed out; but those who prepared it did not allow their minds to dwell long enough upon the subject, or they must have seen their way out of the difficulties. The fourth section of the report contains the following paragraph:

"Towards the close of 1836, the stock of bullion in the Bank had fallen to little more than four millions; while, at the same time, it was indebted to the world

upwards of thirty millions for its circulation and deposits. The directors now determined to check the drain upon their coffers, and to increase the stock of bullion on hand. It had been stated on the authority of the Bank Directory, in a memorandum presented to a Committee of the House of Commons in 1832, 'that a supply of gold could be procured from abroad only by reduced prices of commodities;' in other words, at the expense of the mercantile and manufacturing classes, and the object of advancing the rate of interest in two months, from four to five per cent., to which we have alluded, was undoubtedly with a view to depreciate the value of commodities twenty-five per cent."

The passage quoted from the statement of the Bank Directory is most significant. "A supply of gold can be obtained from abroad only by reduced prices for commodities." Here the fact is avowed, and the clue given to an outlet from the labyrinth. It was a hint which ought to have led the shrewd population of Manchester to a more searching inquiry. Had this been the case, the question must have arisen, why does gold go abroad? Why do foreigners take it in payment of their imports instead of goods? But no such inquiry was instituted. Manchester did not perceive that the price of gold was fixed in our coinage at the barter level, while its price was permitted to rise in other countries, under the law of supply and demand. It failed, also, to perceive that while the price of the metal in a coined form was kept permanently low by an inexorable law of parliament, its representative, the bank note, was allowed to rise in price, as indicated by an advance in the rate of interest. The thing signified remained cheap, but the representatives of the thing signified became dear. So palpable a contrast ought to have arrested the attention of the chamber, and stimulated research into the contradiction involved. But it was entirely unnoticed. Reproof fell on the

wrong parties. In the judgment of the Chamber of Commerce, the Bank of England, as manager of the circulation, was alone to blame. It was forgotten that that institution was merely a creation of LAW; and that the same law which sanctioned its existence, compelled it to act on prescribed rules. The innocent party is censured in the following severe, unreflective, and unmerited terms:—

“ Although it scarcely comes within the scope of their present object, the board will add a reflection upon the subject of the undue privileges possessed by the Bank of England. That such a power over the property, and, as has been seen, the health, morals, and very lives of the community should be vested in the hands of twenty-six irresponsible individuals, for the exclusive benefit of a body of bank proprietors, must be regarded as one of the most singular anomalies of the present day;—that the secret acts of these individuals, veiled as they are even from the eyes of their own constituents, should decide the fortunes of our capitalists, and the fate of our artizans—that upon the error or wisdom of their judgment should depend the happiness or misery of millions—and that against the most capricious exercise of this power, there should be neither appeal nor remedy—that such a state of things should be allowed to exist must be regarded as a reproach to the intelligence of the age, and as totally irreconcilable with every principle of public justice.”

The report gives copious evidence of the evils inflicted by commercial panic, showing that it not only ruins fortunes, but frightfully increases disease, crime, and mortality. The proofs are not confined to Manchester. It is stated that, in 1837, the Savings' Banks were drained by the depositors at Leeds, Sheffield, Birmingham, Stockport, Huddersfield, Blackburn, and Bolton; that in the manufacturing counties of Stafford, Nottingham, and Leicester, “a cessation of the demand for

labour took place in 1837, more sudden in approach, and more extensive in its operations, than has been known on any previous occasion." The same industrial prostration happened at Coventry, at Foleshill, Nuneaton, and Mansfield. "In Birmingham large subscriptions were raised to relieve the distress of the almost unprecedented numbers of unemployed labourers." In Glasgow 18,000 people were fed from the soup kitchen. Similar distribution prevailed at Paisley, Dundee, and in many other towns. The Report of the Dublin Mendicity Society, in 1837, states they "have struggled through a year of almost unparalleled difficulties, and that within the recollection of the oldest inhabitant, there has seldom or ever occurred a period when outdoor employment was so much restricted." The Belfast House of Industry Report, on the 10th of March, 1837, gave a most lamentable description of the state of the poor, and attributed the depression of trade "to a panic in the money market."

The distress was general and overwhelming in the three kingdoms, and the cause is every where traceable to the monetary system. So far Manchester was perfectly in the right, but it put the saddle on the wrong horse. It is evident that the parties who drew up the report knew very little of the legal constitution of the Bank of England, and far less of the Acts of Parliament which controlled the currency. Their ignorance not only made them unjust, but rendered their labours utterly useless in preventing a recurrence of the disasters they so bitterly deplored.

When Mr. Cobden was examined, in 1840, as a witness before the Committee of the House of Commons, on banks of issue, he made the following statement:—"I believe that great evils have been occasioned to the trade and manufactures of this country, in 1836 and 1837, and in the subsequent period, by fluctuations in the currency—greater evils, pecuniary, social, and



moral, than by the direct failure of all the banks of issue since they were first established in this country." Notwithstanding this statement, Mr. Cobden voted for the complement bill of 1844, which rendered the act of 1819, which he had condemned, infinitely more disastrous in its operation; he also voted with the majority in the committee of 1848, who affirmed, notoriously in the teeth of overwhelming evidence, that the panic of 1847 was not aggravated by the act of 1844; and that gentleman even now denies, in opposition to common sense and the clauses in the act of 1816, already quoted, that the price of gold in our coinage is fixed.

While ruin, borne on the wings of monetary pestilence, smote to the dust the most prudent and experienced merchants and traders in the great marts of British industry, General Jackson, President of the United States, determined to follow the policy of the English bullionists. In consequence of this infatuation the great Bank of Pennsylvania stopped; scores of minor banks shared the same fate; of those which stood the shock, the dividends of many ceased to be paid, while some repudiated the principal. British capitalists, who had made large investments in Transatlantic funds, were seriously impoverished, or wholly ruined. In addition to these calamities, the measures of General Jackson tended to some extent to drain bullion from the Bank of England, and on the 7th of February, 1837, the amount had fallen to £4,032,000. Several large American firms foundered in the storm, and one of the greatest must have become bankrupt had not government come to its aid. The pressure continued for the next two years, and, in October, 1839, the bullion in the Bank had fallen to £2,522,000. The Bank struggled hard to keep its ground. It raised the discount to five per cent., but without effect. It increased it to five and a-half per cent., but still the specie disappeared. It offered to sell the dead weight,

either for money or stock; but finding no purchasers at an eligible price, it actually pledged a portion of it, and borrowed £750,000 in Exchequer Bills from the East India Company. Yet all these efforts were fruitless; bankruptcy stared the corporation in the face, and it only escaped destruction by obtaining a loan of two million and a-half from the Bank of France.

The whole period from 1833 to 1839 is a memorable and warning epoch in the history of bullionism. It was an era in which legislation, more bustling than wise, busied itself in barren attempts in reforming the monetary system. Some of the exclusive privileges of the Bank of England were withdrawn, and joint-stock banks were called into existence for the purpose of enlarging the amount of the circulating medium, and guaranteeing its solidity. Between these new establishments and the old corporation a jealous rivalry sprang up, which aimed at personal profits instead of at the promotion of the general interests of commerce; for we have seen that the Bank of England refused to discount any bills, however unexceptionable, which emanated from its competitors; while the government, whose duty it was to give fair play to all, especially to those called into existence by its own act and encouragement, secured to the old corporation that amount of monopoly which invested it with a trading dictatorship. The London private banks, acting on the same narrow and selfish principle, excluded the London and Westminster Joint Stock Bank from the facilities of the clearing house. In fact, a monstrous monied power had arisen on which all industry was dependent. The STATE, having abdicated its functions, transferred the monetary prerogative of the Crown to a handful of its subjects, who, possessing the instrument of exchange, controlled every market, now exalting, now depressing—encouraging enterprise by low discounts, then hurling it to the ground by high discounts—introducing uncertainty

into every transaction that ranged over any lengthened period, and luring the inexperienced to destruction by tempting them to borrow, and compelling them to pay, before their most legitimate transactions could be matured. This is the power of despotism maximised. When a state delegates that power or permits its exercise, it becomes the most cruel oppressor of the people.

Let us continue the history of events. Prices continued to fall. Men were thrown out of work. The consumption of taxed articles declined. The revenue was diminished. In 1839 ministers endeavoured to make the income square with the expenditure. Mr. Baring, then chancellor of the exchequer, proposed an addition of five per cent. on all taxes. By this scheme he anticipated an augmentation of revenue of £1,895,575; the actual increase was about one-ninth of his calculation, or £206,715. Proof was thus afforded that the great body of the people had reached the fiscal limits of consumption; we say fiscal limits, since the natural desires of hunger and thirst remained undiminished but unsatisfied. The excise fell because wages were reduced or withdrawn. From 5th January, 1838, to 5th April, 1843, the total deficit was £10,072,638.

We are now on the threshold of the Bank Charter Act of 1844.

## CHAPTER VI.

Administration of Sir Robert Peel. The Monetary Act of 1844. The erroneous assumption on which it proceeds. View of Mr. Edward Capps. Opinion of General Harrison, President of the United States. Dogmas of Lord Overstone. His Theory of Trade. "What ought to be a Pound?" versus "What is a Pound?" Clauses of the Bank Charter Act of 1844. Issues of Notes permitted on nominal securities, and on no securities at all. Division of the Bank into the Banking and Issue Departments. The Lords' Report on the Suspension of the Act of 1844 in 1847. Errors of Sir Robert Peel.

A CONSTANTLY failing revenue overwhelmed the Whigs with unpopularity. Their parliamentary majorities became fractional. To weather the storm they proposed an eight shilling duty on wheat. This most paltry expedient clearly showed that they were grossly ignorant of the true state of the nation. The object of the corn laws had been to raise and sustain prices at the taxation level, but the object of the money laws had been to drag down all prices to the barter level. This antagonism between the two conflicting statutes the Whigs never perceived, and hence the grand and fundamental error of their policy. What the people wanted was high prices, for these alone could yield high profits and high wages; and these again were the necessary antecedents to a high revenue, derived from indirect taxes levied on articles of consumption. A population unemployed, or, if employed, unrewarded, cannot purchase; ceasing to purchase they cannot recruit the funds of an exhausted treasury; and the



deficiency in the whig revenue might be accurately measured by the deficiency of recompense earned by the industrious classes. To them high wages, not cheap bread, was the primary consideration, for if wages were not obtained bread was beyond their reach. It was under these lamentable blunders that the Whigs were ignominiously driven from Downing-street, and Sir Robert Peel took the helm of the state vessel.

The failure of Mr. Baring's scheme had convinced the new minister that the consumption of those who lived on wages had reached its limits. Out of them no more was to be squeezed under a system of metallic money, to which he pertinaciously adhered. Therefore the Property and Income Tax were introduced to make up the deficiency in the revenue; but no effort was made to raise the condition of the labourer by augmenting his purchasing power over commodities through increased wages. Whig and Tory both agreed in keeping him down in the scale of civilisation; and in order that this slavery of the industrious classes should be riveted by the strongest and heaviest fetters, Sir Robert Peel proposed and carried the Bank Charter Act of 1844, which was complementary to the Act of 1819. The real author of this measure was Mr. Samuel Jones Loyd, now Lord Overstone.

The Act of 1844 proceeds on the assumption that an equilibrium of prices exists all over the world. The assumption is wholly false. Prices are made up of two constituent parts, intrinsic value and taxes; consequently if taxes are unequal in different countries, there can be no equilibrium of prices. The national debt of England is about equal to the aggregate of all the national debts of Europe; the standard of living is superior to that of all the other countries in Europe; these two circumstances compel higher prices in England than in any other country in Europe. The assumption of Peel is, therefore, false.

“It is evident,” writes Mr. Capps, “that with such a currency as Sir Robert Peel proposes, where the pound is invariably 5 dwts. 3 grs. of gold, any increase of prices must be a larger quantity of gold. If the pound of 20s. be 5 dwts. of gold, 30s. must be  $7\frac{1}{2}$  dwts. of gold. Now suppose, for the sake of argument, that a commodity which is naturally worth 5 dwts. of gold, or 20s., should be required to be sold for 30s., in consequence of the additional charges caused by taxation, how, we ask, is 30s., which would be  $7\frac{1}{2}$  dwts. of gold, to be obtained from the foreigner for the article, if it is only intrinsically worth 5 dwts.? No ordinance of government can ever make things exchange in a free market for more of the commodity gold, or of the commodity silver, than they are intrinsically worth. Government may choose to put a tax of 5s., 10s., or 15s. upon any article beyond its intrinsic value; but it cannot make the foreigner give the 5s., 10s., or 15s. more for the article, if that be so much beyond its intrinsic value; nor can it make the home consumer pay it, if he have free access to a cheaper foreign market..... If the higher prices which indirect taxation renders necessary are to be secured to the producers, who, in the first instance, advance the taxes, a currency system must be established upon a totally different principle to that of Sir Robert Peel’s currency scheme. It is useless to look for higher prices, if those prices are to be realised in a gold currency; for the laws of nature and commerce forbid such prices to be realised.”

Experience had taught Sir Robert Peel that foreigners preferred cheap gold to dear goods. His device, therefore, was to prevent goods becoming dearer than gold. It was obvious that the difference in value between gold and goods could be prevented by limiting the circulation of legal tender money in England, in accordance with the foreign demand for gold. Now,

this foreign demand depended on the prices of our products; if the home prices rose above the mint price of gold, at that instant the foreign demand for gold commenced and continued till the price of taxed products fell to the level of untaxed gold. Then, but not till then, the drain of metal ceased. Now, prices can only rise in the medium of money; increase the quantity of money, prices ascend; contract the quantity of money, prices descend. Accordingly the Bill of 1844 enacts, that as soon as prices reach the point at which it becomes more profitable to the foreigner to take gold than goods, the Bank shall draw in its notes and refuse to discount except at enhanced rates. Then all holders of goods, who are under acceptances and liabilities, are forced to sell, prices sink to the level of untaxed gold, and the threatened drain of bullion is averted. The system is termed, "The theory of regulating the issues of the Bank of England by the foreign exchanges." The contrivance is ingenious; the means are admirably adapted to the end; but the perfection of the machinery is the condemnation of the inventor. It is the Procrustean bed of industry. It is a bill to depreciate the value of British labour. While it exists it is hopeless for the mechanic to expect any improvement in his condition. No prudence can ensure the merchant from the stealthy steps of ruin. No young man can hope to rise above the status in which he starts in life. Cheapened labour and cheapened commodities will continue to swell the opulence of all who live on fixed incomes—Belgravia will shine with burnished gold; Bethnalia will be squalid in sackcloth and ashes.

"The idea of making it (money) exclusively metallic," said General Harrison, President of the United States, "however well intended, appears to me fraught with more fatal consequences than any other scheme, having no relation to the personal rights of the citizens, that has ever been devised. If any single

scheme could produce the effect of arresting at once that mutation of condition by which thousands of our most indigent citizens, by their industry and enterprise, are raised to the position of wealth, this is one. If there is one measure better calculated than another to produce that state of things so much deprecated by all true republicans, by which they are daily adding to their hoards, and the poor sinking deeper into penury, it is an exclusive metallic currency. Or, if there is a process by which the character of the country for generosity and nobleness of feeling may be destroyed by the great increase and necessary toleration of usury, it is an exclusive metallic currency."

The bill of 1819 had proved a failure. It had been accompanied by frequent and destructive panics. Sir Robert Peel, and his tutor, Mr. Loyd, felt the urgency of some change. They were too much committed to bullionism to abandon it, and determined to make the system more stringent; for this end they proposed to take from the Bank Directors all discretionary power. It is proper in this place to put Mr. Loyd's monetary views before the reader, as he has expressed them in his various pamphlets and in his evidence before parliamentary committees.

"The convertibility of the notes of the Bank was to be secured by regulating the amount of the issues with reference to the state of the foreign exchanges; and the increase or diminution of gold, in the hands of the Bank, was to be taken as the only certain and safe test of the favorable or unfavorable state of the exchanges; consequently the amount of her paper issues was to vary with a direct reference to the fluctuations in the amount of bullion in the possession of the Bank."\*

In this passage the requirements of the home trade are absolutely ignored; no provision whatever is made

\* Remarks on the Management of the Circulation, by Samuel Jones Loyd, p. 21. Edition 1840.



for sustaining our domestic agriculture or manufactures; so that when foreigners drain away gold, internal production and distribution are to be suspended, if not entirely destroyed.

“In the case of the contraction of the paper circulation of any given country, the void created by the contraction cannot be filled up by a corresponding increase of the paper issues of any other country; the contracted circulation must produce its legitimate effects in enhancing the value of money and lowering prices in the country in which it takes place.”\*

The following passage is to the same effect, but the atrocity of the measure is more unblushingly avowed.

“Against the actual exhaustion of its treasure by a drain through the foreign exchanges, the Bank, under almost any circumstances, has the power of protecting herself; but to do this she must produce upon the money market a pressure ruinous from its suddenness and severity; she must save herself by the destruction of all around her.”†

What description of bullionism can be more condemnatory of its character?

“Unless the paper circulation of the country be regulated by a fixed rule, not fitful and capricious in its operation, but constant and invariable, its convertibility cannot at all times be effectually secured, and the maintenance of the value of the currency, as measured by its ancient metallic standard, must become precarious and uncertain.”

The word “ancient” requires some comment. It would be uncourteous to say that it was used for the purposes of wilful deception, but most assuredly it does not express truth, but the very reverse of truth; and it has already been shown that the act of 1819, professing

\* *Ibidem*, p. 66.

† *Remarks, &c.*, p. 38. Edition 1839.

to restore the ancient system of cash payments, did nothing of the kind, but introduced a totally new system, violating the ancient standard in five different points. But we shall refer again to this matter when we examine Sir Robert Peel's definition of a pound.

"It is not sufficient merely to ordain, as Peel's Bill did, (the act of 1819) the convertibility of the note; it is further necessary to see that effectual means are provided for that end. It is now discovered that there is a liability to excessive issues of paper, even while that paper is convertible at will; and that to preserve the value of a paper circulation, not only must that paper be convertible into metallic money, but that the whole of its oscillations must be made to correspond exactly, both in time and amount, with what would be the oscillations of a metallic currency, as indicated by the state of the bullion. Such a system, therefore, for the management of the circulation must be constructed as shall secure that due and steady regulation of the amount of the issues through which alone any permanent security for their convertibility can be maintained."\*

If Mr. Loyd had been consistent with himself he ought to have insisted on the complete disuse of bank notes, which would have saved all the trouble of inquiring from week to week whether the paper and the gold were exactly proportionate; but he knew perfectly well that a purely and strictly gold circulation was impracticable, that it could not last for forty-eight hours; had paper been abolished, the blind would have been removed from the eyes of the public; they could no longer have been plundered, for all trade must have been annihilated.

The following questions and answers are extracted from the evidence of Mr. Loyd, given by him before the Bank Committee of the House of Commons in 1840.

\* *Ibidem*, p. 111. Edition 1840.

“ By the Committee.—Do you think that the internal trade of the country should be regulated and maintained by as steady and equable prices as possible?

“ Mr. Loyd.—The idea of regulating the trade of the country by equable prices, if I may say so with proper deference to the Committee, seems to me to be nonsense.

“ By the Committee.—Have you ever considered what would be the effect upon the minds of the industrious classes, if their wages fluctuated with the foreign exchanges; or, what would be the feeling of the internal trading community towards the sole bank of issue were their stocks to be subjected to sudden depression by the sale of foreign stock, or the payment of an instalment of a foreign loan, occasioning temporary depression in the exchanges?

“ Mr. Loyd.—I must admit that I have never reflected upon such topics, because I am quite sure that if I was to make the attempt, I should only lead my own intellect into great confusion, and come to no satisfactory or useful result, either to myself or to the community.”

The first member of this last sentence is a confession of ignorance, the second is a mean evasion; and neither are the fitting qualifications of a teacher of such inflated pretensions as Mr. Loyd. Had he pursued the subject to the extent which the Committee fairly presumed he had done, considering that he deems himself an oracle, it is probable that his conscience might have reproved his avarice; but, at any rate, he must have seen that as a banker he gained enormously whenever the Bank of England put on the screw. When he said that “equable prices” were “nonsense,” he assigned no reason for that censure; we are, therefore, driven to conjecture what were the grounds of his condemnation; are we to conclude that “equable prices” were “nonsense,” because they are accompanied by equable discounts, which are not so profitable to

bankers as variable discounts? That gambling speculations are preferable to steady trade, or that the sudden rise and fall of markets are the sheet anchors of mercantile stability? Mr. Loyd has never been a producer or seller of commodities; he has simply been an agent of distribution, in which character he has realized millions, while hundreds of thousands of upright traders have been ruined by his system. On that system he has built up what may be termed a "Theory of Trade," enunciated in the following terms:—

"The history of what we are in the habit of calling the 'state of trade' is an instructive lesson. We find it subject to various conditions which are periodically returning; it revolves apparently in an established cycle. First we find it in a state of quiescence—next improvement—growing confidence—prosperity—excitement—over-trading—convulsion—pressure—stagnation—distress, ending again in quiescence."

Were this theory founded on truth, melancholy would be the condition of the human race. The fabled Sisyphus, condemned to the eternal toil of heaving a stone up a hill only to roll down again to his feet, while an inexorable destiny compelled him for ever to renew his unavailing efforts, would be the type of human industry. According to the theory, labour may climb the mercantile ladder and reach its summit, not, however, to retain a firm footing on the eminence reached, but to be precipitated to the earth. Prosperity may be touched, not grasped; it eludes the hand, as the stream of water approached the parched lips of Tantalus only to retreat. We may till and sow, but the crop vanishes before it can be garnered. Thus doomed to perpetual and unrewarded toil, it is our hard fate to pass our lives,—

Still dropping buckets into empty wells,  
And growing old in drawing nothing up.



Surely this is not a law of Providence. It is difficult to understand, if industry, guided by intelligence, is capable of raising a nation to prosperity, that the same industry, improved by its exercise, and the same intelligence matured by experience, should not, at least, render that state of prosperity permanent! The reasonable presumption, indeed, would be that the state of prosperity would advance, since practice sharpens aptitude, and experience discovers and amends defects. But, according to Mr. Loyd, the theory of trade is an exception to this rule; the cycles of prosperity and ruin are inevitable. Before giving our assent to this disheartening doctrine, let us inquire if the evils said to be inherent in the system are not the consequences of ignorant or fraudulent legislation; for if they are, then they are remediable.

If the intrinsic value of a commodity be represented by  $x$ , and that commodity is not charged with any taxation, it can be sold for  $x$ , giving to the producer the ordinary rate of profit; but if it is charged with a tax, represented by  $y$ , then it cannot be sold for less than  $x$  plus  $y$ , if the producer is still to receive the ordinary rate of profit. If  $x$  equals four, and  $y$  equals two, then  $x$  plus  $y$  must equal six, whether six express pounds, shillings, or pence. By the application of this simple formula, we propose to test Mr. Loyd's theory of trade.

His initial point is quiescence, which we shall designate by  $x$ . The culminating point in the ascending scale is prosperity, which we shall denote by  $x$  plus  $y$ . The final point in the descending scale is again quiescence, which again we must express by  $x$ .

Quiescence, then, is that state in which commodities are sold for their barter price, from which taxation is altogether excluded. In that state, employment is difficult to be obtained, wages and profits being at the lowest ebb. In this sense, quiescence does not signify

an invigorating repose, but a death-like torpor. Improvement denotes that prices have somewhat risen above the barter level, so that the productive classes are enabled to recover from the consumers a slight proportion of the tax they have advanced. Growing confidence shows that a further rise in prices has taken place, that wages and profits have risen, and that additional taxation has been recovered by the productive classes. When we have reached prosperity, we have completely attained to the taxation level, expressed by  $x$  plus  $y$ ; and the industrial classes are fully employed and self-sustaining. But we cannot, according to the theory of Mr. Loyd, retain our position; we already tread upon the slopes of the declivity, and enter upon the descending scale. Excitement denotes the giddiness with which we are seized while standing on the summit of the ascent, and overtrading the slipping of the feet. Some disturbing power, presently to be described, has commenced to drag prices down. Terror seizes the holders of commodities, who all, and simultaneously, become sellers, lest prices should still further decline, and convulsion agitates the markets. Panic ensues; none are able or willing to buy, except the bullionists, who have been watching their opportunity. We proceed from panic to stagnation. Pressure follows, and drives the merchant, the manufacturer, and the tradesman into the *Gazette*. Having now travelled through the cycle, we reach the final point in the descending scale—quiescence—denoted by  $x$ , where no particle of taxation can be added, and we sink to the barter level. Such, according to Mr. Loyd, is the circle in which trade is *compelled* to revolve.

But is this compulsory? Under bullionism, as taught and applied by Mr. Loyd and Sir Robert Peel, it is; but that is the condemnation of the system. Having reached prosperity, why are we unable to keep our ground? In other words, why cannot we sustain prices

at the taxation level, which alone can be remunerating? We have alluded to a disturbing power which drags prices down. *That power is the fixed price of gold in our coinage.* Coined gold being tied down by Act of Parliament to the barter level, represented by  $x$ , above which it can never rise, when commodities rise to the taxation level, they become dearer than gold—dearer by the exact difference between the barter level and the taxation level. In such circumstances, the foreigner will not take our commodities in payment of his commodities, but our cheap gold, because, though it is his interest to *sell* in our *dear* market, it is not his interest to *buy* in our *dear* market. Thus our senseless legislation offers the foreigner a premium to export our gold, and leave our goods in the warehouses.

Suppose an Act of Parliament were to decide that all our measures of weight, length, or capacity, were to be of gold of a certain fineness, certified by a Mint mark, and fixed in price; and let us further suppose that the foreigner got possessed of them, and took them out of the country, or even locked them up in a warehouse. What would the draper do without his measure of length? His shop might be full of goods, and crowded with customers, but he could not sell a yard of cloth. He must either abandon his business, or submit to any terms the foreigner might dictate. If the foreigner proposed to return the gold measure on receiving 48 or 56 inches for the yard, instead of 36, the draper would have to yield to this sacrifice on his cloth, and on all the other articles of his trade. Here the illustration is direct; but precisely the same result happens, though in an indirect form, when our gold coin is abstracted. Then discounts are suspended, or only granted at ruinous rates. The private banks are paralysed as well as the Bank of England, since none of them dare advance their notes, except for very short periods, even to the most solvent customers, lest the notes should be pre-

sented, and gold demanded in payment. The banks must save themselves, but they can only do so by prostrating trade, and *unwillingly* driving the most prudent, upright, and established firms into the *Gazette*. The interpretation we have given of the ascending and descending scale in Mr. Loyd's "Theory of Trade," clearly shows that his cycles are not caused by any law of nature, but by incompetent or malignant legislation; that periodical ruin is not, as he contends, an irresistible necessity, but the wicked contrivance of Parliament. That the system should find favour with the monied class, who sweep into their pockets, every five or six years, the hardly-earned savings of labour, through the most usurious extortions when panics arise, is not surprising, considering the short-sighted selfishness of human nature. They who live on fixed annuities also have their avarice gratified by the fraud. It is their interest to keep prices down to  $x$ , or the barter level, for then the purchasing power of their annuities is maximised; but when prices rise to the taxation level, or  $x$  plus  $y$ , the purchasing power of those annuities is minimised. Therefore it is that the monied classes, and those who live on fixed annuities, make an ally of the foreigner through Mr. Loyd's system, and offer him a premium to knock down home prices by abstracting gold, whenever those prices reach or are tending to reach the taxation level.

The distinction pointed out between the barter level and the taxation level, will enable us to point out more fully than we have already done the fallacy involved in the indiscriminate use of the term "cheapness." It has been observed that cheapness is of two kinds; it may mean a great deal of money for few products, or many products for little money. In the little algebraic formula we have used,  $x$  denotes cheapness, while  $x$  plus  $y$  denotes dearness. Let  $x$ , expressed in figures, be 4, and  $y$ , expressed in figures, be 2; then  $x$  plus  $y$  must



be 6. Now introduce cheapness, so that  $x$  plus  $y$  be reduced to 5. But this diminution of *one* must come out of  $x$  or out of  $y$ . If out of  $y$ , there is no possible objection to such a form of cheapness, for  $y$  represents taxation, and the fall in prices would in this case be evidence that taxation had been reduced. If, however, the diminution comes out of  $x$ , then there must be deduction either from the profits of the employer or from the wages of the employed, while taxes remain as high as ever. If the profits of the employer fail, wages must fall, for the very condition of high wages is a state of high profits, since high wages cannot continue to be paid out of low profits. Wages are paid for creating products to be sold in a market; to suppose, then, that they can be permanently sustained at a high scale while products are permanently sold at a low scale, is absurd, and indeed contradicted by all experience. When, therefore, the fall in prices is effected by taking *one* out of  $x$ , this form of cheapness reduces the income of working men, while it adds to the purchasing power of all who live on fixed annuities. The injustice to the working man is really greater than as yet described. Taxes remaining the same as they were before this second form of cheapness was introduced, he has now only three pounds to spend on his own wants, whereas before this second form of cheapness was established, he had four pounds to spend on his own wants.

Such is the system which finds favour with Mr. Loyd, and to render it obligatory on the productive classes was his object when presenting his plan to Sir Robert Peel.

The Bank Charter Act of 1844 was introduced into the House of Commons on the 6th May, 1844, when Sir Robert Peel made the following statement. "The whole foundation of my measure rests on the assumption that according to practice, according to law, according to the ancient monetary policy of this

country, the meaning of a pound is neither more nor less than a certain *quantity* of gold, with a mark upon it to determine its weight and fineness; and that the engagement to pay a pound means nothing else than the promise to pay the holder on demand, when he demands it, a definite quantity of the precious metals."

Supposing this statement were true, it would simply show what *is* a pound, not what a pound *ought to be*; and then the question would fairly arise, if our ancestors fixed on a pound which suited them, but which is unsuited to us, are we to be bound by their decision? If so, there would be an end to all progress, and we need not dwell on so silly a proposition.

A pound, according to Sir Robert Peel, is a definite quantity of gold or of silver. There he is vague, for he may mean a definite or unchanging quantity from the foundation of the monarchy; or only a definite quantity at the time a bargain is made. If he means the former, he is greatly in error, as the reader will have perceived from the table of Lord Liverpool, in which the successive variations in the weight of our gold and silver coins have been traced. It is true that in a later part of his speech Sir Robert Peel confined the invariability of the gold pound to the period which has elapsed since the concluding part of the reign of Queen Elizabeth, that is since 1601; but here also he displays his ignorance of history, for the sovereign of Elizabeth weighed 7 dwts.  $6\frac{1}{2}$  grains, whereas that of Victoria weighs only 5 dwts. 3 grains.

When Sir Robert was palming his false definition on the ignorance or credulity of the House of Commons, he took a sovereign from his waistcoat pocket, threw it up in the air, and caught it in his hand as it descended; then with a smiling and self-complacent countenance, as if exulting in the ingenuity of his felicitous illustration, he exclaimed, showing the sovereign, "This, gentlemen of the House of Commons, is

a Pound." It was the exhibition of a mountebank. Any other member of the House of Commons might have held up eight half crowns, or twenty shillings, or forty sixpences, and exclaimed "Behold a Pound." If any member, prepared with a blow pipe, had fused the sovereign, and then asked Sir Robert Peel, "Is this ingot a pound? is it legal tender for a debt?" the absurdity of the whole process would have been apparent to the dullest man whoever parted with Bank notes to obtain a seat in the House of Commons. The silliness of the whole proceeding is so ably exposed by Lieut. Colonel Macdonald, a recent but most able writer on monetary science, that we shall submit his criticism to our readers.

"The error lies in not perceiving that these coins possess two distinct properties, the one as *metal*, the other as *money*. As metal, both the sovereign and the silver coins are of the *value of a pound sterling*; in other words, they possess value to that amount. As money, as the stamped coins of the realm, they are the legal representative of that amount or portion of value adopted by the nation as the measure of value, and are used solely for the purpose of facilitating exchanges of all things valuable. As a *mere piece of gold*, therefore, what Sir Robert Peel displayed was not a pound, but only a pound's worth of gold. This he would speedily have discovered by melting the sovereign. For, although he would have exhibited the same identical piece of gold, he would not have ventured so to stultify himself with the House as to have held up the now shapeless lump of gold and declared it to be a 'pound.' He might with truth have stated that it was equal in value to a pound, but he might have displayed a new hat or umbrella, and with as much truth declared the same thing. But in neither case would he have displayed the pound itself. It was, therefore, solely in its *representative character*, as attested by the national

stamp of authority, and thereby universally recognised throughout the country as legal tender to that amount, that the sovereign could be declared with any truth to be a pound sterling. If this be not so, then might Sir Robert Peel have held up his gold ring and declared it to be a pound, or two pounds, or ten pounds; and no bullionist will, I suppose, be bold enough to make any such assertion. If, then, the sovereign be a pound sterling, in its representative character as money, the important question arises—what does it represent? I answer, what the sovereign represents is value. All money in its true character is only the legal representative of value; and a pound sterling in its present day is only the English term for a certain fixed portion of value, and which we may find contained in so many grains of gold, in so many ounces of silver, and in so much wheat, iron, calico, tea, sugar, and other valuable things. The sovereign, as the symbol of this pound, continues to represent this portion of value, and the shilling a less portion of the same property, long after the materials of which they are composed have been greatly reduced in quantity, and, therefore, are no longer equal to a pound. From these premises I conclude that a pound sterling is merely that portion of value employed by us in estimating or measuring the amount of value in all things possessing that property. But to conclude that any material substance, a portion of which may contain value to the amount thus fixed upon, must alone be this pound, is as illogical and unreasonable as to declare that any article which occupies or fills that portion of space we call a yard is itself that yard. To say that the piece of gold weighing 123 grains is necessarily a pound is as false and foolish as it would be to assert, that any piece of wood or iron, capable of being formed into the representative of a yard, is that yard; and we know the yard itself exists as much *before* as after its material representative is



made. The fallacy, as I said before, lies in mistaking the material substance itself, as that portion of value we call a pound, which it is merely made to represent."

Bearing in memory Sir Robert Peel's definition of a pound, that it is "neither more nor less than a certain quantity of gold, with a mark upon it to determine its weight and fineness; and that the engagement to pay a pound means nothing, and can mean nothing else, than the promise to pay the holder on demand, when he demands it, a definite quantity of the precious metals," let us consider whether he acted upon or violated his own definition when constructing the Bank Charter Act of 1844.

His arrangement with the Bank of England was to allow it to issue £14,000,000 of notes without its holding a single grain of gold to meet those issues; herein is involved the first palpable contradiction. For whatever amount of notes the Bank of England puts into circulation above and beyond those £14,000,000 it was compelled to hold gold in its coffers. Supposing, then, that the total issue was £21,000,000, two-thirds would be mere wind-bills, having no metallic basis or guarantee whatever, while for the other third there would be a metallic basis. This equivocation arose out of the fact of government being indebted to the Bank in the sum of £14,000,000; it could not pay that sum in gold, and therefore connived at this credit issue of wind bills, while rigorously exacting from every merchant, manufacturer, and tradesman the immediate payment of all their debts in gold, under pain of bankruptcy. Ought not the mercantile community to appreciate the justness and tender care of the paternal government!!

The English private banks and the English joint stock banks were dealt with in the following fashion. They were called upon to give a return of their average circulation of notes during four weeks after the 10th of October, 1843, and that was fixed upon as the maximum

for all future time, the legislators of the day assuming to themselves a degree of foresight which enabled them to look into all the monetary wants and commercial operations of the most distant periods. To the extent of the average circulation during four weeks after the 10th October, 1843, these banks were allowed to issue notes without any metallic basis whatever; but beyond and above that amount they were to hold gold in their coffers. Here, again, Sir Robert Peel violated his definition of a pound; there was a shadow of an excuse in allowing the Bank of England to issue wind bills; but in the case of private and joint stock banks there was none. How admirable was his consistency!

The Banks of Scotland and of Ireland were placed upon the same footing (in 1845) as the English private and joint stock banks. The summary of wind bills, then, stands thus:—

1	The Bank of England .....	£14,000,000
196	English Private Banks .....	4,999,444
67	English Joint Stock Banks ....	3,418,277
<hr/>		
264	English Banks, Total.....	£22,417,721
18	Banks in Scotland .....	3,087,209
8	Banks in Ireland .....	6,354,494
<hr/>		
Total issues for the United Kingdom*		£31,859,424
		<hr/>

From this table it appears that, whilst the average amount of the fixed issues for the 264 banks of issue in England gives £32,000 for each bank, that of Ireland is £794,000 for each of its eight banks; and that, although Scotland has more than twice the number of banks that Ireland has, the amount of the circulation of Ireland is more than twice the amount of that of

\* By an order in Council, dated 7th December, 1855, the Bank obtained power to increase its issues to the extent of £475,000, being two-thirds of the lapsed circulations of the provincial banks which had failed since 1844.

Scotland. Here, then, we discover no adaptation of means to an end, which is generally looked for in the wisdom of statesmen. Where trade is most extensive and most active, there the monetary instruments by which trade alone can be carried on, are the least. It may here be added that the 17th section of the Act provides that "any banker issuing notes beyond the amount authorised by the commissioners shall forfeit a sum equal to the amount in excess," so that the section rigidly limits trade, and violates the important principle which proclaims to all men of common sense that it is trade that calls out monetary instruments, not monetary instruments which call out trade.

It appears then that Sir Robert Peel's Bank Charter Act flagrantly violates his own definition of a pound, since the total issues of the United Kingdom, not guaranteed by the deposit of a single grain of gold, are permitted to the extent of £31,859,424. Indeed, they have no guarantee whatever, and are essentially wind-bills; or, to use the choice and elegant phraseology of the bullionists, "kites, flimsies, rags, shin-plasters." This violation of the definition of a pound clearly proves beyond all cavil, that a purely metallic circulation is impracticable; or else why did not Sir R. Peel establish such a circulation? It also shows that Mr. Loyd's dictum "that to preserve the value of a paper circulation, not only must that paper be convertible into metallic money, but the whole of its oscillations must be made to correspond, both in time and amount, with what would be the oscillations of a metallic currency, as indicated by the state of the bullion," amounts to mere verbiage. In the case before us there is no bullion indicator whatever, since it is expelled from consideration. The £31,859,424 are completely independent of bullion. In the construction of the Bank Charter Act, bullion, the professed basis of the whole scheme, is made subsidiary and subordinate to the wind bills, since it

only comes into play when the amount of circulation exceeds the amount of those wind bills.

The next important feature in the Act was the division of the Bank of England into two separate departments, called the Banking and Issue departments. On this ridiculous conceit was founded what its authors styled "the self-acting system." In the panic of 1847 it covered them with ridicule, though Mr. Loyd had considered it the perfection of wisdom. In the Issue department was placed a credit for the £14,000,000 of debt due by government to the Bank, and notes to that amount were therein deposited, uncovered by an ounce of gold. For issues beyond that amount gold was lodged in the same department. The notes thence issued are lodged in the Banking department. Now comes the juggle to those who are not initiated. It is well explained by Mr. Wright, the eminent banker of Nottingham.

"The public labour under the fallacy of supposing, when they see the Bank has ten millions in her coffers, that she has ten millions to dispose of. No such thing. When the circulation of notes is twenty millions, and the entire stock of gold ten millions, the available surplus is only four millions. According to this new system, should the Banking Department say to the Issue Department, I want gold, or I want notes, the Issue Department would answer—you have got twenty millions of our notes, that is, six millions above the fourteen millions without gold to cover them; we have only six millions of bullion in our coffers, and, therefore, cannot give you gold unless you bring us notes, or give you notes unless you bring us gold. Thus the Banking Department cannot touch any portion of the six millions in the Issue Department without taking in a corresponding amount of notes to be cancelled. The Banking Department obtains notes from the public by selling securities, and letting the bills of



exchange she holds run out without discounting any more; and this plan is represented by the supporters of the Act as very easily accomplished. But what is the effect on the country? The country is sacrificed to fulfil an improvident law; and yet, after all the stringent measures that may be adopted to pay the six millions in gold, the remaining fourteen millions are not convertible."

It is difficult to conceive of any arrangement more absurd than the one described. It resembles the marshalling an army in the field where one arm of every soldier is tied up, or where a certain amount of powder and shot is brought into the field with an express order from the commander-in-chief that they are not to be used. It is sheer delusion to make a display of gold with an interdict against its circulation; and its barren exhibition can subserve no other purpose than to dupe the credulous public into the belief that a shadow is a substance. But let us test the wisdom of this division of the Bank into two separate departments by stubborn facts and actual experience. The following is taken from the Lord's Report of 1848, on the commercial distress which occurred in the PANIC year of 1847. For the sake of clearness we will first describe the condition of the Bank before we set down the questions and answers.

The reserve of notes, which had been £2,630,000 on the 16th October, 1847, had fallen on the 23rd to £1,547,000, and to £1,176,000 on the 30th October, having decreased nearly £1,500,000 within the short space of fourteen days. At this last period, of the total reserve of notes amounting to £1,176,740, no more than £568,470 was held in London, making with the gold coin in the Banking Department £719,523. At the same time the private deposits for which the Bank was responsible amounted to £8,580,000, independently of upwards of £4,766,000 of Government deposits.

The total deposits on the 30th October were £14,500,000; the deposits of the London bankers being more than £2,000,000 at the same time. In reference to this state of things, the following important evidence was given by the governor and deputy governor of the Bank of England:—

“Question—You had only £1,600,000 in the banking department for the payment of your liabilities? Yes.

“Question—If any body had called upon you for anything beyond that million and a half, you must have stopped payment? Yes we must.

“Question—At that time, if there had been no separation between the two departments, and the Bank of England had been conducted on its old principle, instead of being within one million and a half of stopping, there would have been nearly £8,500,000 of treasure in your vaults? We should have had £8,500,000 in our vaults.”

So it appears from this evidence, the most complete evidence that could be given, since tendered by the governor and the deputy governor of the Bank, that under the same roof the establishment was bankrupt in one room and solvent in another room; that had the London bankers demanded their deposits, they would only have received about 15s. in the pound; that the Government deposits, the deposits of the merchants and all the notes in the hands of the public, must have been wholly repudiated; and that when the affairs of the Bank had been wound up, they would have shown £8,500,000 as their available assets. Surely no additional argument is needed to show that the division of the Bank of England into two separate departments was most unwise.

But the admirers of the system take credit to themselves for securing the convertibility of the bank note. The statement is only true in this sense, that the

holders of the notes did not press for payment; so that the vaunted convertibility was only one on sufferance. It is known that the London bankers who held the two millions of deposits, went to the governor of the Bank, and stated their reluctance to demand payment; but that unless a Treasury order was issued for the suspension of the Act of 1844, they would be compelled to do so in self-defence. The result was that the Act was suspended, and this shows that the convertibility of the note was really a fiction. Moreover, it was proved by calculation made by Mr. Ayres, of the "Banker's Circular," that in January, 1847, the power of the Bank to discharge its notes in gold was at the highest, or 11s. 9d. in the pound, while on the 30th of October it was reduced to 6s. 7d. in the Issue Department. On the 1st of May, 1847, in the Banking Department, the metallic power of the Bank, in silver and gold, was only one shilling and one penny in the pound; while on the 6th of October it barely exceeded fourpence in the pound, silver and gold included.

The third clause of the Bank Charter Act runs thus: "And whereas it is necessary to limit the amount of silver bullion on which it shall be lawful for the issue department of the Bank of England to issue Bank of England notes: Be it therefore enacted, that it shall not be lawful for the Bank of England to retain in the issue department of the said bank at any one time an amount of silver bullion exceeding one-fourth part of gold coin and bullion at such time held by the Bank in the issue department."

In one sense this was a farce, in another a deliberate piece of deception. By the Act of 1816, still unrepealed and unchanged, silver was declared to be legal tender for only forty shillings at one payment; it was a mockery, therefore, to introduce silver as a basis for notes concomitantly with gold, since, practically, under the limitation mentioned, silver was no security at all;

and this was proved in 1847, when Mr. Thomas Baring stated, in the House of Commons, that a foreign merchant arriving in London during the panic, with silver bullion worth £60,000, was unable to procure either bank notes or gold, to discharge some liabilities he had incurred.

Sir Robert Peel had two great advantages in the House of Commons; the first was his facility of assertion; the second, the credulity of his dupes. It cannot be denied that every alteration of plans or opinions is conclusive evidence of prior imperfection of judgment; and, tried by this unerring canon of criticism, the intellect of Peel is reduced to small dimensions. He was among the last to seize truth. By his repeated tergiversations—and these, too, of the most flagrant character—he convicted himself of an absolute deficiency in foresight. Let us first quote an instance of his facility of assertion. When he introduced the bill for resuming cash payments into the House of Commons, on the 24th May, 1819, he made the following grossly unfounded statement, which threw dust into the eyes of many of the members. He said—

“From 1774 to 1797, they (the Bank) did that to which now the objection is made,—during that period they confined their issues to the price of gold; and he challenged any man to produce an instance during that period when the price of gold exceeded £3 17s. 6d. per ounce.”

Mr. Abraham Newland, for many years Chief Cashier of the Bank of England, gave the following evidence before the Lords' Committee of Secrecy, in 1797, and Sir Robert Peel, pluming himself on being an authority on finance, ought to have known the facts.

“Question. Do the banks ever pay more in the purchase of gold than the Mint price?—Frequently.

“Question. Do the bank, in such cases, carry their gold to the Mint to be coined?—They do.



“ Question. What is the highest price you ever knew the bank pay for gold per ounce?—£4 1s. 0d.; £4 2s. 0d.; £4 6s. 0d.; and as high as £4 8s. 0d.; but very seldom at those prices.

“ Question. State to the Committee at what time the bank gave so large a price as £4 8s. 0d. per ounce for gold?—I believe it was about two years since the bank gave so large a price as £4 8s. 0d. per ounce for gold; it was but a small quantity—it was soon stopped on account of its price; the bank at that time thought it expedient to obtain gold from Portugal, which their agent could not do at a less price than £4 8s. 0d. per ounce.”

This ought to be decisive of Peel’s historical ignorance on this important point in these inquiries, as it certainly is of the coolness with which he imposed on the House of Commons. But he knew his audience, and had not much fear of detection.

In introducing the Bank Charter of 1844, in one single speech he floundered in contradictions, nor were these errors of the newspaper reporters, for he revised that speech, and printed it as a pamphlet. These are specimens of the confusion of his ideas:

“ I say that coin and bullion, as articles of commerce, are regulated by precisely the same principles as those which regulate other articles of commerce.”

Here coin and bullion are treated as identical, which is not true, for the former is money, and the latter is *not* money; moreover, we fix the price of coin, but do not fix the price of bullion.

In contrast to this foolish *dictum* we have the following:—

“ Bullion is distributed according to certain laws which we cannot understand, and which we cannot control.”

How this was reconciled with the former statements we are not told, but when a man does not understand a

subject it is difficult for him to state it so as to be understood by others. Here is another extract:—

“Now it is just because it (bullion) is an article of commerce, and subject to the same laws as other articles, that it becomes fit to be taken as the standard, and our security as a measure of value; because the same laws which regulate the import and possession of all articles of commerce, regulate the import by this country of bullion.”

The second passage contradicts the first, and the third demolishes the second. If we put the three together, the amalgamation is a chaos.

Sir Robert Peel, in the third extract, confounds the *standard* with the *measure*, the source of innumerable blunders. “Bread corn,” said Mr. Horner, “is the paramount and real standard of all values.” The difference between a standard and a measure may be readily explained. A perfect standard is only found in nature, and is therefore immutable at all times, and under all circumstances; but a measure is the creation of man, and variable at his will and pleasure. The annual revolution of the earth round the sun is an immutable *standard* of time, fixed in nature, but certain portions of that revolution which we call months, weeks, days, minutes, are *measures* of time. Speaking philosophically, a standard of length is found in the 400,000,000th part of the earth’s circumference, which is equal to 39.370 English inches. This is the length of the French metre, a measure deduced from the standard. In England the philosophical standard of length is a pendulum vibrating seconds in the latitude of Greenwich, which is acted upon by the earth’s attraction combined with its rotation, and is an *invariable* standard of length, because all laws of nature are invariable; from this standard we form the yard and all other measures of length. The standards of weight and capacity are founded on similar philo-

sophical principles, based on nature, while their corresponding measures are mere artificial arrangements. A very complete illustration of these distinctions is afforded by the thermometer. The points at which water boils or freezes constitute the *standard* of heat, while mercury, expanding or contracting in the tube as it receives or loses heat, constitutes the *measure* of heat. Thus in the three differently graduated scales of Fahrenheit, Reaumur, and Gay Lussac, the boiling and freezing points are indicated by different numerical degrees marked on the sides of the tube, but all of them are referable to the same standard. The standard of heat, being found in nature, is unchangeable by any act of man; but the measure of heat, being only a mode of testing the variations of its intensity, accommodates itself to the contrivances or the conveniences of the scientific, as it may seem to them best adapted to bring the virtues of the standard into practical operation.

Of these distinctions Sir Robert Peel does not appear to have had the most remote conception, treating the terms standard and measure as identical. The standard of value is bread corn; the measure of value is gold or silver. Every labourer must be subsisted by the produce of his labour; he must replace the food he has consumed while labouring; therefore he practically refers his wages to the quantity of corn (which is used here as a compendious term for "general subsistence") which those wages will purchase. To such a man gold and silver can never be standards of value; the question with him is not whether he gets a shilling a day or a sovereign a day, a dwt. of gold or 5 dwts. of gold, but whether what he does get will buy *half a loaf* or *a whole loaf*, for the test of wages, as of all other income, is their purchasing power. The money contained in the wages is the measure of the standard to which they are referred, and that standard is corn.

The legislation of Peel and Loyd requires that all commodities shall be convertible, each into another, that is, exchangeable, each into another, not *according* to the measure of value, but actually *into* the measure of value itself. This obligation is not imposed on measures of length, weight, or capacity. In reference to them we are only bound to observe the measure or rule of proportion which they prescribe. We should laugh outright if parliament decreed that articles sold by length, weight, or capacity, should be converted into their respective measures, and not *according* to their respective measures; cloth into maple-yard wands, sugar into leaden weights, and wine into wooden pipes, thus substituting the thing containing for the thing contained, or the thing measuring for the thing measured; this, however, is the kind of absurdity we are compelled to perpetrate in reference to the measure of value, for unless, being indebted, we can convert or exchange our property into gold, even at the time when the government itself is exporting gold to take up a foreign loan, we are doomed to bankruptcy, however solvent we may be in land, houses, ships, and all other commodities except gold. Such an atrocious process could never be sanctioned by any legislature whose members understood the difference between a standard and a measure.

Considering the frequent tergiversations of Sir Robert Peel, it is highly probable that he would have repudiated his monetary opinions had his life been prolonged. This probability is more than a shadowy conjecture, considering a letter he wrote to Sir Roderick Impey Murchison, shortly before his death, and which appeared in the *Quarterly Review*, vol. xci., p. 530, June and September, 1852. We reprint it.

“On the 6th May, 1844, in bringing in the Bank Charter Act, I adverted to the rapid increase of the annual supply of gold from mines within the dominions of Russia, and recommended those who wished for a



diminution in the standard of value to benefit the debtor, to consider whether their objects might not be effected by natural causes—the decreasing relative value of gold in consequence of a more abundant supply—without the aid of legislative intervention. Your arguments are powerful to show that there is no probability (risk I should say,) of precipitate and violent disturbance. It takes a long time and a great disproportion in the amount of supply to affect the relative value throughout the world of two such articles as gold and silver. The united influence of Siberia and California will, however, I think, justify my inference of 1844, that there is a tendency towards diminished value on the part of the gold. An extraordinary increase in the supply of both gold and silver might concurrently take place, not affecting their relative value between each other, but affecting the price of all other commodities, estimated with reference to the precious metals, and the interest of debtor and creditor.”

The first sentence in this extract would justify the conclusion that Sir Robert was aware of the iniquity of his system, and that he knew the creditor had an advantage over the debtor which he ought not to possess. But as we read on and come to the parenthesis (risk, I should say) the extract admits of a directly opposite interpretation. When the letter was written, Australia was not known as a gold field, but the writer expresses his conviction that the united influence of Siberia and California would diminish the value of gold; if so, the creditor would be wronged, and he would call for an equitable adjustment; as in past times, and as at present, the debtor called for, and still calls for, such an adjustment. If the recent discoveries do not lower the value of gold, injustice will be perpetuated; if they do, suffering must overtake the class hitherto favored. Peel had a glimpse of the future, and it is highly probable that, either to protect the bullionists, or to do

an act of tardy justice, he would have brought the whole monetary system under a fresh discussion.

There is one more clause in the Act of 1844, allusion to which must not be omitted. It gave a banking monopoly to all existing bankers. Henceforward, no new bank of issue could be established, and this bribe secured the adhesion of all those who were established. In this arrangement Sir Robert Peel contradicted his free trade principles.

## CHAPTER VII.

Lord Overstone on the Defects of the Bank of England. Character of Imperial or National Money. Its Limitation and periodical redemption, rendering depreciation impossible. The Guernsey Market. American Independence due to paper Money. The power of Napoleon broken by paper Money. Prussia reinvigorated by paper Money, by Frederick the Great. Scotland enriched by paper Money. Commercial Money and Security Banks. Opinions of the first Sir Robert Peel. View of Mr. John Taylor on "Prices." Gold at its market Price. Evidence of Mr. W. Brown, M.P., before the Lords' Committee on the rate of discount. The late Sir Robert Peel's defence of Usury. Answered by Mr. James Taylor. Arbitrary Limitation of Legal Tender. Opinion of Sir Josiah Child on interest of Money. The inverted pyramid of Gold. Error of Mr. James Mill. View of David Hume. How markets are created and sustained. Mr. Cayley and the Governor of the Bank. The Fall of Rome. Sismondi. Michelet. Gibbon. Summary of Monetary Principles.

CERTAIN passages have been cited from the writings of Mr. Jones Loyd, on which adverse comments have been pronounced; but he has expressed other opinions which are sound and worthy of encomium. He uses the following language in reference to the incompatible functions which the Bank of England are required to discharge:—

"The union of banking functions with those of issue; the obligation imposed on the manager of the circulation to supply the uncertain and fluctuating demands of Government on account of the public service; the existence of rival and competing (though subordinate) issuers, not directly subjected to the obligation of regulating their issues with reference to the state of the foreign exchanges; the application of the

rule which the Bank has laid down for its guidance to the joint liabilities (deposits as well as circulation) instead of applying it to the circulation only; the too intimate connection of the manager of the circulation with commercial affairs, and the implied duty which arises out of its supporting public and private credit: to whatever extent in these respects our present system deviates from that which sound views would dictate, the blame cannot with any justice be exclusively thrown upon the Bank. They are the remaining traces of a false system which was established when questions of currency were less understood than they now are.\* \* \*

\* \* \* \* How is it possible that the proper relations between the paper issues and the bullion can be properly maintained whilst the Bank is liable to be compelled to issue on her deposit accounts, upon the discount of commercial bills, and for the supply of the public wants of Government? The consequence of uniting these, which are strictly banking operations, with a power of regulating the amount of the currency, which is a duty of a very different character, must be embarrassment to the party in whom these conflicting functions are united, and ultimately an abuse of all the power which is entrusted to her. \* \* \* The connection of the Bank with commerce is the leading cause of its mismanagement of the circulation; and yet you complain that the Bank is unable to extend and complicate its relations in that respect. The manager of the circulation ought to have no connection with trade and commerce. If they are allowed to approach her, they are sure to undermine her principles, to seduce her from the path of duty, and to destroy her character."†

Putting out of view the recommendation that the issues of notes should be regulated by the foreign exchanges, the incompatible functions of the manager of

\* Remarks, &c., p. 101. † Letter to I. B. Smith, Esq., p. 21.



the circulation are strongly shown; it is most true that a national bank of issue should have nothing to do with trade and commerce, or discounts, or profits; it should stand aloof from all such operations, and be utterly independent of home transactions or foreign exchanges. A national bank should take for its motto,

—Fungar vice cotis que reddit acutum Exsors ipsa secandi.

It should resemble the whetstone, which sharpens, itself incapable of cutting.

On this branch of the subject we must quote one more passage from Mr. Loyd:

“The profit to be derived from a paper circulation legitimately belongs to the government; and a permanent advance to it of a fixed sum, as representing that portion of the taxation which is beyond the reach of fluctuation, is an arrangement to which no valid objection can be urged.”\*

Here it is difficult to understand what the writer really means. Who is to advance this paper circulation to the government? Who is to decide what amount is beyond the reach of fluctuation? Is the advanced paper to be based on gold, and convertible into the metal? And if convertible, is it to be at the mint or market price? And how are the profits to be indicated, and whence derived? These queries obviously suggest themselves, but Mr. Loyd does not even hint at any grounds on which an answer can be framed. He seems, however, to have some vague notion that the crown is entitled to some kind of equivalent for the prerogative it has surrendered to the Bank of England. This is a great concession for so confirmed a bullicnist, but it seems rather to have escaped from him, than to be based on any broad principle. Having ourselves raised various objections to the system now enforced, it becomes us to propound a plan, and, having done so, to anticipate the more popular criticisms by which it may be assailed.

\* Remarks, p. 45.

National or imperial money, as the name imports, is that form of legal tender which derives all its conventional value from the authority of the state which calls it into existence. It is the monetary servant of the community, not its master. Its special function is to circulate at home, and it should be deprived of all power of travelling abroad. Being essentially a credit instrument, it need not possess any intrinsic value. To secure it against depreciation, provision should be made for its periodical redemption. Its proper limit is the amount of annual taxation voted by parliament. The method by which this legal tender would be brought into circulation is the following:—The crown would pay all its creditors with this money—as the army and navy, official salaries, pensions, the dividends of the fundholders, and indeed every outlay which it incurred. As it would be legal tender from man to man, every recipient of it would be enabled to purchase with it what he desired to possess; it would discharge all fiscal duties, as customs and excise, and every description of tax. When paid back to the crown in liquidation of taxes, the notes would be cancelled, which would prevent the issues being cumulative from year to year; and they would be so received back at the same conventional value at which they were originally issued. A single case will illustrate the operation. Let the admiralty advertise for a supply of beef and pork, to be furnished to the victualling department of one of the royal dockyards. Let it be assumed that the contract is taken for £100,000. The treasury gives that sum in national notes to the contractor, who lodges them with his banker. This being done, let a distiller go to the same banker, wanting his bill discounted for £100,000; the banker hands to him the £100,000 paid in by the victualling contractor, and with it the distiller discharges his duties to the excise. The notes are then forwarded to the treasury, where they are cancelled. Thus the

government would get all that it wanted—provisions in the dockyard—first, by advancing national money to the contractor, and then receiving that money back in the form of taxes from the distiller. This would be effected without the intervention of a single ounce of gold, which would not be required. All other transactions would partake of a similar character. Soldiers and sailors would pay the butcher and baker with these national notes, and with them they would pay the tax gatherer. They would, in fact, pass from hand to hand as freely as sovereigns now pass, and for every purpose of buying and selling as sovereigns now pass, finally to be absorbed by the collectors of taxes. The security on which national money would be based, would be the whole property of the kingdom which called it into existence and put it into circulation.

Against such a system it is frequently but unreflectingly urged, that taxation might be indefinitely expanded through the facilities afforded by national paper money. Were this a valid objection, it could not apply to the monetary instrument, with whatever force it might be brought to bear against the construction of Parliament, for the amount of notes would be exactly proportioned to the amount of taxation voted by Parliament. An unskilful or unprincipled engine-driver might run a railway train down an embankment or over a bridge: this would be proof of the incapacity or criminality of the driver, but it would be no argument against the usefulness of railway travelling. The remedy would not be a return to stage coaches, but the dismissal of an untrustworthy servant. In like manner a Ministry that violated its duty ought to be cashiered.

But the vague dread of excessive and indefinitely augmenting taxation is groundless. National money is designed to *express* taxation; and, by its use, the prices of all produce would necessarily rise as much

above the barter price as the scale of taxation demanded; therefore the purchasing power of money would *fall* proportionably to the *rise* of taxes, so that if the richer classes, who sit in Parliament and make the laws, wantonly increased the taxes, they would, precisely in the ratio of such increase, diminish the effective power of their own incomes. This is a conclusive answer to the objection.

National paper money would not bear any interest. At present when the Government wants money it borrows it from the Bank of England. This is the process. Government deposits with the Bank exchequer bills bearing interest, receiving in exchange Bank notes, that is an inferior for a superior security; for the exchequer bill is guaranteed by the whole property of the country, while the Bank note has no other basis than the credit of the Bank corporation. Thus the nation pays interest to the members of a joint stock corporation, which only exists by the permission of the nation, and that interest is an addition to taxation. National paper money would be in the nature of a small exchequer note, issued directly by the Crown, without the intervention of the Bank.

It must be observed that under this system taxes raised within the year would be wholly discharged within the year; consequently there never could be any outstanding liabilities, or any addition to the national debt.

National money would have much of the character of the postage stamp, which has no intrinsic value; but only a conventional value. Both are national credit instruments. Many small debts, fractional parts of a pound, are now paid in postage stamps, which thus become a currency. Why are they taken? Not for their intrinsic value, because they possess none, but for their conventional value; and on what does their conventional value rest? On faith—on the conviction



that the Queen's Head placed on a letter will carry it all through the United Kingdom. The stamp indicates the tax we pay to the Post Office, and the national paper money indicates the general aggregate tax we pay annually to the government. We get possession of both by giving a portion of our time or labour for them. It is idle to say that we give a copper penny for a postage stamp; for the question returns how do we get the penny? and the only answer is, by our labour.

National paper money is an economical instrument. Skilfully used, it works wonders. As an illustration, the case of a market, constructed in the island of Guernsey, may be cited. The material wealth of that small island is computed at four millions sterling. Instead of borrowing money at interest to build the edifice, the inhabitants issued notes of their own, founded on their own credit. This was done by the authority of their local parliament or States. The estimated cost of the market was £4,000, and four thousand one pound notes were issued. These were paid to the contractor as the works proceeded; with these he paid the wages of those he employed; they in turn gave them to the shopkeepers for goods, the shopkeepers gave them to their landlords for rent, and they again re-distributed them among society. In this manner they were kept floating about, fulfilling the functions for which they were created. In due season the market was completed. It contained eighty shops, which were let to butchers at five pounds a year; so that the annual rental was £400. At the end of the first year of tenancy four hundred of the one pound notes which had built the market, having been received as rent by the States, who were the owners of the national building reared up with the national money, were burnt in presence of the official authorities. The same operation was repeated from year to year for ten

years; at the expiration of which period all the notes were redeemed, and, being cancelled, of course passed out of circulation. But the annual rent did not cease; it exists to this day, and is applied to local improvements. Thus a substantial reality was created out of a symbol; for it is plain that the market did not cost a farthing to any one of the Guernsey people. In the same manner bridges, railways, and canals may be constructed, without paying a farthing of interest to bullionists.

Paper money established the independence of the United States. At the commencement of the war, Congress had no money. The internal commerce of the States being suppressed, the farmer could not sell his produce, and, of course, could not pay a tax. Congress had no resource but paper money. Not being able to lay a tax for its redemption, they could only promise that taxes should be laid for that purpose, so as to redeem the bills by a certain day. They did not foresee the long continuance of the war, the almost total suppression of their imports and exports, and other events which rendered the performance of their engagements impossible. The paper money continued for a twelvemonth equal to gold and silver, but the quantities which the Congress were obliged to emit for the purposes of the war, exceeded what had been the usual quantity of the circulating medium. In fact, no provision being made for its periodical redemption, this paper money became cumulative, since there was no tax by which it could from time to time be absorbed and cancelled. It began, therefore to become cheaper or depreciated, falling in its purchasing power, just as gold would be depreciated if it were doubled or trebled in quantity, or as silver became depreciated in Europe after the discovery of the South American mines. In two years it had fallen to two dollars of paper money for one of silver; in three years to four for one; in

nine months more it fell to ten for one; and in the six months following, that is to say, by September, 1779, it had fallen to twenty for one. It continued to circulate and to depreciate till the end of 1780, when it had fallen to seventy-five for one. About that time the money circulated by the French army began to be sensibly felt in all the States north of the Potomac, and in those districts the paper disappeared from circulation. In Virginia and in North Carolina, it continued a year longer, within which it fell a thousand to one, and then expired, as it had done in the other States. These facts are taken from the personal memoir of President Jefferson, who makes this comment. "Foreigners, who do not, like the natives, feel indulgence for its memory, as of a being which had vindicated their liberties and fallen in the moment of victory, have been loud and still are loud in their complaints. A few of these have reason, but the noisiest of them are not the best of them." The depreciation of the paper was the price which the Americans paid for their independence, and it was cheaply purchased at the cost of sixty-six millions of dollars, the amount of depreciation estimated by Jefferson.

Paper money broke the power of the first Napoleon at Leipsic. According to the historian Alison, "by a decree on the 30th September, 1813, from Peterswaldau in Germany, the allied sovereigns issued paper notes, guaranteed by Russia, Prussia, and England, which soon passed as cash from Kamskatka to the Rhine, and produced the currency, which brought the war to a successful issue. There was an evidence of the manner in which a paper circulation, based on a proper security, supports credit and supplies the want of specie at the decisive moment. Whereas, according to the present system, the paper would of necessity have been contracted, when the specie became scarce; credit would have been ruined at the critical period;



and the vast armaments of the allies would have been dissolved for the want of funds for their support."

Paper money enabled Frederick the Great to raise Prussia, exhausted by wars, from a state of prostration to wealth and power. That monarch issued land mortgage notes, called *Pfenbriefe*, bearing interest, but inconvertible so long as the interest was paid. With these monetary instruments he forced or fostered Prussian agriculture, and caused it to grow in strength and riches beyond any country in the world, except the United States. The *Pfenbriefe* were so good a security that they were readily negotiable even during all the wars of Napoleon.

Paper money built every town and village in Scotland, constructed all its docks, harbours, roads, factories, opened out all its mines, and reclaimed the whole of its soil from primitive barrenness. The Scotch note is not only current in all the Scotch marts of trade, but penetrates into the remotest glens of the Highlands. It is received where the sovereign is rejected. Peel's Act of 1845 now compels the banks of Scotland to hold gold when the note circulation exceeds £3,000,000; this gold is deposited in the cellars, and rarely unpacked from the barrels in which it is transmitted from the London mint. There is no demand for it, and the shopkeepers shun it, lest it be short of weight or counterfeit. They have faith in their own paper—a faith based on one hundred and fifty years experience. The monetary panics that have so often shaken the commercial establishments of England to their centres, have passed innocuously over North Britain.

These historical facts are sufficient to show the utility of paper money, and that it possesses a power far superior to gold or silver. "A prince," says Adam Smith, "who should enact that a certain proportion of the taxes should be paid in a paper currency of a certain kind, might thereby give a certain value to this paper



money, even though the term of its final discharge and redemption should depend altogether on the will of the prince. If the Bank which issued this paper was careful to keep the quantity of it always somewhat below what could be easily employed in this manner, the demand for it might be such as to make it even bear a premium, or sell for somewhat more in the market than the quantity of gold or silver currency for which it was issued." Here the principle of imperial or taxation money is not only conceded, but applauded; but the plan contended for here is very superior to that suggested by Adam Smith. The redemption of the notes would not depend on the will of the prince, but would be strictly provided for in the receipt of taxation, which would effectually prevent any depreciation through excess.

There is one remaining point which it is very important to notice. Bullionists ask of their opponents, "How will your note be worded? What are we to understand by your I promise to pay?" The answer is, that the taxation note would bear no such inscription, but the words—"I promise to receive this note in discharge of as many pounds of taxation as the note represents." By this simple change of the formula the whole difficulty is surmounted, and the sting is extracted from the satire of the bullionists.

From national money, limited from year to year to the annual amount of taxation, we now pass to the consideration of commercial money.

It being the prerogative of the crown to create and issue imperial legal tender for imperial purposes, it is the right of the people to create and issue commercial currency for the purposes of trade. As the former is the representative of taxes, so is the latter the representative of barter; and as all are privileged to barter as they please, so all are entitled to use such aids to barter as they deem most efficient. But though govern-

ment is never justified in interfering, under the pretence of *regulating* the currency, which will always regulate itself if left alone; yet, to protect the simple against the wiles of the cunning, and give stability to credit, it is desirable that government should receive tangible securities from those capitalists who solicit an act of banking incorporation, in order that the solidity of their notes may be certified to the public. It is, therefore, proposed that all banks of issue should deposit, in the hands of the government, approved guarantees in land, consols, or in other indisputable securities, the legal title to ownership being attested by the law officers of the crown, and the value of the property by the actuaries of the crown. These preliminaries settled, the banks would then be permitted to issue commercial currency to the extent of one-half, two-thirds, or three-fourths of the securities deposited, the exact proportion being determinable by parliament. The notes of these banks would be made by government and numbered, and ought to be impressed with a distinctive die, similar to that used by newspapers; and both the amount of permitted issues, and the amount of securities should be printed on the face of the notes. No man of common sense would run on such a bank; there could be no excessive issues, and, therefore, no depreciation. If such a bank failed, it would be entirely owing to the imprudence of its directors; but, in such an event, every holder of the notes would be safe, as the government would have a power to sell the securities, and thus be enabled to pay to all such holders twenty shillings in the pound.

In a letter addressed to both Houses of Parliament, dated 3rd April, 1826, after the dreadful panic, the first Sir Robert Peel expressed himself in favour of this system of SECURITY BANKS in the following terms:—

“Having been long and extensively engaged in commercial dealings, I often witnessed a national embarrassment arising from a defective or impure currency,

which resembled the present stagnation of trade; and I lament to observe that suffering and experience have failed in this instance of producing their usual good effects. In the enlarged scale of business carried on by this country, embracing a great variety of pursuits, a reliance on a metallic circulation ever did, and ever will, fail us. Gold, though in itself massy, often disappears in consequence of war or speculation; nay, the breath of rumour itself is sufficient to disperse it. Our domestic concerns are interrupted, and confidence lost, for want of an ample and approved medium of traffic. I am no friend to an unrestrained issue of paper money, and saw with concern, in the absence of a due quantity of specie, notes admitted into circulation, issued by persons of respectability possessing property, but evidently unable to meet a sudden and large demand upon them. More than two years ago I mentioned to a friend high in His Majesty's councils, my fears of the mischiefs likely to ensue if this practice were not discontinued, accompanied with a suggestion to confine future issues of paper money, or tokens, to the Bank of England, and other *competent bodies of men*, who would give security in land, the public funds, canals, buildings, or other tangible property, amounting to at least one-half the value of their bills or notes in circulation. My proposition was not favoured with any notice; yet, had it been adopted, I am of opinion that most of the panic and distress now so severely felt in the nation would have been avoided. If such an arrangement in the banking system could be made available, gold would become less requisite, and the country would be supplied with a stationary medium of exchange *originating with ourselves.*"

This is the advice of a man of experience, who carried on business during the Restriction Act, accumulated an immense fortune, and founded a family. It was he who said in the House of Commons, "had there been

no paper money there would have been no Sir Robert Peel."

The system here propounded would give to every nation adopting it that "medium of exchange originating with themselves," which Sir Robert Peel recommended. Imperial money for taxes and commercial money for trade, would render a nation independent of gold for all its internal transactions. Gold would then be restored to its natural character of a merchantable metal, a mere commodity, and, in common with all other commodities, it would find its proper price in the legal tender of every country under the law of supply and demand. To obtain clear ideas on the subject we must radically distinguish between the home and foreign trade, which require to be carried on with different monetary instruments, for the *taxation price* of goods is designed to take effect at home, and only at home; while the *barter price* must ever be the rule of foreign trade. Mr. John Taylor truly observes:—

"The trade of England is now paralysed by our having only *one kind* of currency to represent *both kinds of prices*; whence it happens that while, on the one hand, our producers cannot obtain the necessary taxation prices for their commodities at home, so, on the other, they cannot afford to sell their commodities for so little as the natural price abroad. Having only *one kind* of currency to represent *both prices*, they cannot sell their goods for *so much* at home, and *so little* abroad, as they ought to do, and hence proceeds the distress."

To put gold at its market price in England is to do no more than what is universally done in foreign commerce, where gold always finds its market price in the higgling of the exchanges. The intrinsic value of the metal out of which coins are struck is undisturbed, but the price of the coins or weight of metal varies at Paris, at Hamburg, at Amsterdam, &c., under the law of



supply and demand. The authority of rulers cannot extend to regulate payments made in foreign countries, where they have no power or jurisdiction. Foreign merchants never consider the coins of any nation as *money*, but as commodities; they deal with other nations than their own on the pure principle of barter, taking no heed of their taxation, and merely calculate what weight of bullion of a certain fineness they shall receive for the goods they import and sell. What the legal tender may be among other countries is to them a matter of perfect indifference. They care not whether it be paper or oyster shells. During the war against the first Napoleon, when our paper pound would only buy or exchange for 16 or 17 francs, and even when the Berlin and Milan decrees were in force, England bought corn of France, and France clothed its soldiers with the woollen fabrics of Yorkshire.

Where is the authority, unless a most arbitrary and unjust one, that can fix the price of anything on earth? We ridicule the vain attempts of the French government, in the early part of the great revolution, to fix a maximum and minimum on corn and on other provisions, but we commit the folly of fixing the price of a merchantable metal, so soon as it is reduced into the state of coin. The only difference in the two cases is, that in the one it only required the space of a market day to prove the stupidity of the attempt, and in the other a series of years. The folly of those who submit to the system, and the criminality of those who perpetrate it, will strike a future age with amazement.

The Act of 1844 favours the most flagitious usury. It appears from the Lords' Report on commercial distress (1848), that from the year 1704 to the 16th May, 1839, the rate of interest never exceeded five nor was below four per cent. In the pressure of 1839 the rate was raised to six per cent. for some months; but was reduced to five per cent. in January, 1840, and

remained at four and five per cent. as before, until after the passing of the Act of 1844. The old system was abandoned in September, 1844, and the results are thus described by Mr. William Browne, one of the members for Lancashire, and head of the great Liverpool firm of Browne, Shipley, and Co. The following table exhibits the contrast between the years prior to 1847, and during that year of panic:—

	Lowest Rate.	Highest Rate.	Difference.
1837 .....	3 $\frac{1}{4}$ .....	5 $\frac{1}{2}$ .....	2 $\frac{1}{4}$
1839 .....	3 $\frac{3}{4}$ .....	6 $\frac{1}{2}$ .....	2 $\frac{3}{4}$
1847 .....	3 $\frac{1}{4}$ .....	10 .....	6 $\frac{3}{4}$

But Mr. Browne adds (and important indeed is the addition to those who were compelled to borrow money at usurious interest), “this does not give an accurate view of what the interest of money was in 1847, because persons frequently paid a commission which made it amount to ten, twenty, and thirty per cent., depending on the time the bill had to run, and the pressure of money at the moment.”

Sir Robert Peel was a defender, nay, an admirer of usury. The following passages are extracted from the speech he delivered in the debate on Commercial Distress, 30th November, 1847:—

“Some hon. gentlemen, from whom I could have hoped better things, say that commerce cannot be conducted if we are to pay 10 per cent. for interest; and Government is blamed because people are compelled to pay 10 per cent. Why, what right has any man to pay for money more than money is worth? If money is worth 10 per cent., it will be asked, what law can prohibit such a rate of interest?”

The fallacy on which this justification of usury rests consists in money being compared to commodities, to which it bears *no* resemblance whatever. That coals or iron, cotton or indigo, ought to sell for what they would fetch in an open market, is quite reasonable,

because the legislature imposes no arbitrary limit to their production; their quantity is permitted to increase or diminish under the law of supply and demand, being wholly and exclusively ruled by the markets of consumption. Totally different is the case with metallic money. A law of nature, over which Parliament has no control, restricts the quantity of the raw material, gold, the yield of the mines never keeping pace with the increase of population or the expansion of trade. Moreover, whenever gold is exported as a profitable mercantile speculation, or is hoarded at home through panic, the Act of 1844 compels the Bank of England to contract its issues of notes. The rule is, no gold, no paper; no paper, no money; no money, no discounts, except on terms of extortion. This is the reason why interest rises; this is why the trading world are compelled to pay 10 per cent., and a commission of 20 to 30 per cent.; and it is clear that they are forced to pay it, under the penalty of bankruptcy, not for the fair and legitimate use of money, but on account of its artificial scarcity—a scarcity created by Act of Parliament for the benefit of usurers. If money were like everything else in the market, as Sir Robert Peel most falsely assumed, money would increase with the demand for it; but in violation of all sound principles, and of all honour and honesty, the Bank of England is commanded by the legislature to withhold money when it is most needed, and thus made the reluctant instrument of strangling trade. If the real working of this most iniquitous system were understood, these fraudulent and suicidal statutes would be instantly repealed by the indignant voice of plundered industry.

When bullion is coined into money, it ceases to be simply a commodity, but has superinduced upon it a monetary character. It no longer resembles other articles of commerce. This is happily illustrated by Mr. James Taylor:—

“ Under Peel’s law, gold does not resemble other articles of commerce in the principle which determines its exchangeable value, any more than the trump suit in the game of whist resembles the other three suits. It is well known that while the latter exchange on equal terms one with the other, the trump suit is endowed with supreme power, which makes its lowest number often possess a controlling power greater than the highest number of the other three suits. So, under Peel’s Bill, gold is endowed with a like controlling power over the value of all other commodities in this country.”

We must dwell a moment longer on this important branch of the subject. Suppose that in 1819 when the bill for returning to cash payments was enacted, parliament had decreed that a single gasometer should supply all London with gas; and at that time fixed the number of cubic feet of gas to be manufactured, ordering that that quantity should never be increased in any future time; what would be the consequence in 1856? Clearly that all the streets built since 1819 would be left without gas; or, if they received a supply, then the necessary consequence would be that many of the streets constructed prior to 1819 would be doomed to darkness. According to Sir Robert Peel, the directors of the gasometer would be justified in saying “ gas ought to sell for what it is worth,” for if usury on money, limited by Act of Parliament is defensible, so also would be the usury on gas, limited by Act of Parliament. The same reasoning applies to every monopoly.

In 1846, Sir Robert Peel told the landowners that the area of the British soil could no longer feed the increased and increasing population, and that foreign corn must be introduced that the supply might equal the demand. In this respect he must be considered as an opponent to usury on corn. But with strange inconsistency he asserted, that though the gold mines had



largely fallen off in their yield, (for at that date neither California nor Australia had displayed their auriferous wealth) while population and trade had increased, yet the radius of the supply of money ought not to be enlarged, but actually contracted. He shuddered at a famine of food, and exulted at a famine of money.

Why is interest paid for the use of money? Because money is always scarcer than the commodities which money circulates. If the volume of money was always equal to the volume of commodities, interest would disappear. Bills of exchange and promissory notes are really protests against the inadequateness of legal tender. Interest is a deduction from the profits of trade, and, in that sense, always tends to lower wages. Under this aspect usury, or excessive interest, becomes the assassin of industry and enterprise.

The canons of the Roman Catholic Church prohibited all usance or interest. The great French juriconsult, Pothier, decides that the minutest coin beyond the sum lent, if added to the loan when repaid, constituted usury, and stamped the contract with crime. A legal rate of interest was first fixed in England in 1545, by the statute 37 Henry VIII. It was repealed by 5 and 6 Edward VI., but restored by Elizabeth. The rate was ten per cent. for a year. It was reduced by the 21 James I., c. 27, to eight per cent. The effects of the reduction are thus described by Sir Josiah Child:—

“In 1635, within ten years after interest was brought down to eight per cent., there were more merchants to be found on 'change with each a thousand pounds and upwards, than there were formerly, that is before 1600, to be found worth one hundred pounds each.”

Cromwell reduced the rate of interest to six per cent., and though, after the restoration, the money mongers pretended this was the act of an usurper, and therefore illegal, the parliament of Charles the Second sanctioned the law of the Protector. Here, again, we may quote

from that eminent mercantile authority, Sir Josiah Child, who thus comments on the statute of Cromwell or of Charles the Second:—

“Now, since interest has been for twenty years at six per cent., notwithstanding our long civil wars, and the great complaints of the dullness of trade, there are more men to be found on 'change now worth ten thousand pounds, than were then of one thousand pounds. Which-ever way we take our measures, to me it seems evident that since our first abatement of interest, the riches and splendour of this kingdom are increased about four (I may say about six) times as much as they were. Our customs are much improved, and I believe above the proportion of six to one, which is not so much an advance in the rate of goods, as an increase of the bulk of trade. If we look into the country we shall find lands as much improved since the abatement of interest as trade in cities. I, and those I converse with, do perfectly remember that rents did not generally rise after the late abatement of interest, viz., in the years 1651 and 1652.”

This rate of six per cent. interest continued till the year 1714, when it was reduced to five per cent. by the 12th Anne, at which rate it continued till the repeal of the usury laws, which, with a restricted currency, has perpetrated the most flagitious plunder on all the industrious classes. The great principle of a metallic currency,” says Mr. John Taylor, “*slowness of increase*, to which it owes its value, when viewed in contrast with the rapid increase of the numbers of mankind, to whom individually it will tend to exist in a constantly diminishing ratio, ought to be a reason, with a wise and paternal government, why payments should be made as much as possible in *real* money; and why the taking of usury, that is, any kind of increase in *coin* on a loan of the *precious metals*, should be prohibited.”

Under the system here advocated of national and

commercial money—the former limited to the amount of annual taxation—the latter permitted to expand or contract according to the exigencies of trade—none of the evils described could occur. While the rate of interest is always liable to be excessive with metallic money, constantly liable to export and hoarding, it never could rise above a moderate scale with paper money, since there would be no arbitrary limitation to the supply, and the competition of rival issuers would keep interest steady at a fair level between the borrower and the lender.

Metallic money reduces the form of all monetary transactions into the shape of an inverted pyramid. At its pointed and narrow base lies gold; above that base, as the mathematical figure widens, are ranged promissory notes and bills of exchange, which constitute its superstructure. For the sake of illustration, let it be assumed that the golden basis is 30 millions of sovereigns, and that the credit transactions, represented by promissory notes and bills of exchange, amount to 300 millions; then the foundation is to the superstructure in the ratio of one to ten, since each million of gold sustains ten millions of paper. Take away one third of the basis, you remove 100 millions of credit securities, and produce what Mr. Loyd calls “convulsion and pressure;” take away another third, and you witness what that writer calls “stagnation and distress;” take away the remaining third, and you reach the state of national bankruptcy, barter. This figure of an inverted pyramid explains the rationale of panics.

We must now direct attention to the nature of markets, of which money is the distributive agent. On this most important, but little understood subject, we shall first cite the authority of the late Mr. James Mill:—

“The production of commodities creates, and is the

one and universal cause which creates, a market for the commodities produced. Let us but consider what is meant by a market. Is anything else understood by it than that something is ready to be exchanged for the commodity which we wish to dispose of? When goods are carried to market, what is wanted is somebody to buy. But, to buy, one must have wherewithal to pay. It is obviously, therefore, the collective means of payment which exist in the whole nation, that constitute the entire market of the nation. But wherein consist the collective means of payment of the whole nation? Do they not consist in its annual produce—in the annual revenue of the general mass of the inhabitants? But if a nation's power of purchasing is exactly measured by its annual produce, as it undoubtedly is, the more you increase the annual produce, the more, by that very act, you extend the national market, the power of purchasing and the purchases of the nation. Whatever be the additional quantity of goods, therefore, which is at any time created in a country an additional power of purchasing, exactly equivalent, is at the same time instantly created; so that a nation can never be naturally overstocked either with capital or commodities, as the very operation of capital makes a vent for its own produce."

Whoever allows his mind to dwell long enough on the proposition, will perceive that one half of the goods of a country universally form the market for the other half; for speaking always of aggregates, proportionate production is the natural consequence of effectual demand. It is, however, quite possible, and, indeed, it often happens, that the balance between supply and demand, *in reference to a single commodity*, may be disturbed; but such disturbance can never happen in reference to commodities in general.

"The quantity of one commodity," says Mr. Mill,



“ may easily be carried beyond its due proportion ; but, by that very circumstance, it is implied that some other commodity is not provided in sufficient proportion.—What, indeed, is meant by a commodity’s exceeding the market? Is it not that there is a portion of it for which there is nothing that can be had in exchange?—But of those other things, then, the proportion is too small. A part of the means of production, which had been applied to the preparation of this superabundant commodity, should have been applied to the preparation of those other commodities, till the balance between them had been established. Whenever this balance is properly preserved, there can be no superfluity of commodities—none for which a market will not be ready.”

This reasoning is perfectly sound in the abstract, and the conclusions to which it leads would be realized in practice if all commodities were exchanged by barter ; and all taxes, rents, tithes, rates, and other public and private obligations, were paid in kind, or in that description of representative money which we have described ; but both the reasoning and practice are falsified when the legal tender of a country consists of metallic money fixed in price. It is remarkable that the keen penetration of Mr. Mill overlooked this intrusive element, which completely vitiates the whole of his argument ; and this will appear the more extraordinary to the reader after he has perused the next extract.

“ When money,” continues Mr. Mill, “ *is laid out of the question*, is it not in reality the different commodities of the country, that is to say, the different articles of the annual produce, which are annually exchanged against one another? Whether those commodities are in great quantities or in small—that is to say, whether the country is rich or poor, will not one half of them always balance the other half? And is it not the barter of one half of them with the other which actually constitutes the annual purchases and sales of the country.”

It is perfectly true that when "money is laid out of the question," all the consequences stated by Mr. Mill must occur; the market can never be overstocked; no case can arise of over production, or of over trading; there can be neither scarcities nor gluts; supply and demand will always be proportionate to each other. Hence the importance to every community of profoundly studying the nature and action of money. All experience tells us that the advantages of the industrial system described by Mr. Mill have never been realized; yet he demonstrates that they could never fail to be realized if all exchanges were effected by barter; but currency is the substitute of barter, an instrument designed to facilitate, not to obstruct exchanges. It is the mean to the end. Hence it follows that if the end is not attained, the failure must be ascribed to some defect in the mean, that is, the monetary system.

In a state of pure barter there can be no exchange of commodities, till at least two different kinds of commodities come into contact. As in a state of barter one-half of the goods form the market for the other half of the goods, so when legal tender is introduced, it becomes one half of every bargain. On this point we take the following extract from David Hume:—

"It seems a maxim almost self-evident that the prices of everything depend on the proportion between commodities and money, and that any considerable alteration in either has the same effect, either of heightening or lowering the price. Increase the commodities, they become cheaper; increase the money, they rise in value; as, on the other hand, a diminution of the former and that of the latter have contrary tendencies. It is also evident that prices do not so much depend on the absolute quantities of commodities and that of money which are in a nation, as on that of the commodities which come or may come to market and

of the money which circulates. If the coin be locked up in a chest it is the same thing with regard to prices as if it were annihilated; if the commodities be hoarded in magazines and granaries, a like effect follows. As the money and commodities in these cases never meet, they cannot affect each other. It is the proportion between the circulating money and the commodities in the market which determines prices."

The Supreme Being has furnished for the use of man ample raw materials in the animal, vegetable, and mineral kingdoms, and endowed him with faculties to adapt them to his wants. He has implanted in man certain desires and appetites which prompt him to consume whatever is produced. These wants and desires create markets. To use the language of Mr. Thomas Attwood, "every man's mouth is a market, and every man's hand is a producer." With a proper system of money, markets would always be emptied as soon as supplied; contract money, and the power of purchase is contracted. Now money is naturally active in a civilised country, if the pernicious hand of government does not interfere. Repose is foreign to its nature, and as it acts on property it creates markets, since it creates both supply and demand; for if money buys goods it is equally true that goods buy money. It is not for its own sake that men desire money, but for the sake of what they can purchase with money.

Money acts in a market simply as the instrument of distribution. It forms no part of the revenue of a market. As Adam Smith observes, "The great wheel of circulation is altogether different from the goods which are circulated by it. The revenue of the society consists altogether in those goods, and not in the wheel which circulates them." If a road which usually conveys goods to a market becomes impassable, or a canal which in ordinary times renders the same service,

is frozen, the market remains empty, because the instruments of supply fail; so also if the markets are full, and no money enters it, the market remains full, that is, stagnant, because the instrument of distribution fails. A fussy legislation attempts to create markets; it might spare its pains, since nothing but the natural wants and desires of mankind can create them; but a senseless legislation can destroy markets, and ever does so when it insists on metallic money. It might as reasonably insist that the bars of every railway should be constructed of gold, instead of iron.

It is desirable that the destructive action of bullionism on markets should be clearly understood, and the practical mode in which it operates. The mere description of an opponent of the system might be regarded with suspicion, and set down to special pleading, or to a desire of presenting a one-sided view of this controversy. We shall therefore transfer to these pages the searching questions put by Mr. Cayley to the Governor and Deputy-Governor of the Bank of England, in the Committee of Inquiry instituted in 1848 on the "Causes of Commercial Distress," and the answers of those functionaries.

"3278. When the bank reserve is very low under the export of gold is it impossible to afford an inducement for a speedy return of gold without creating great pressure? The means of getting back gold is by making money dear, and causing a fall generally in the price of commodities, which will bring back gold.

"3279. Then the means of attracting gold back to this country, after it has gone out, is to lower prices? Prices will fall in consequence of the increased value of money.

"3280. Under a great fall of prices the Bank is comparatively safe? A great fall of prices has a tendency to bring *capital* into the country, and as bullion



flows into the country it acts upon the reserve of the Bank and of all private bankers.\*

“3281. But in order to attract gold into the country, the more forced sales there are, and the lower the prices, the safer the position of the Bank is? The lower the price of commodities, the greater will be the tendency to the increase of the importation of the precious metals, and of the reserve of the Bank, and of the bankers generally.

“3282. Under that state of things, that is, a pressure arising from a fall of prices, in order to secure the return of gold, does not any accommodation afforded to the public rather tend to obstruct the fall of prices? Yes.

“3283. The less accommodation under that state of things that is afforded to the public, the safer to the system? That accommodation must of necessity, under that state of things, be reduced.

Here then it is confessed that bullionism destroys markets, and by those best conversant with the system—by the very men who ruled the Bank when the panic of 1847 arose; and their argument amounted to this, that it was expedient to destroy markets to ensure the convertibility of the note at a fixed price. It was under these circumstances that Mr. Cayley proposed the following amendment to one of the clauses in the report framed by Sir Charles Wood, then Chancellor of the Exchequer:—

“It would greatly tend, in the opinion of your committee, and to the safety of the public, if there should prevail among the mercantile and working classes of the community, a clear perception of the position in which they stand under the Act of 1844. That they should distinctly understand that when the gold is

\* Here the common error is made of confining “capital” to gold and silver, as if coals and iron were not capital in as positive a sense as those two metals.

exhausted in the coffers of the Bank every merchant and manufacturer is to suspend his operations, and every artisan and labourer is to remain idle, without work and without wages, until the gold be restored to the coffers of the Bank."

This amendment was of course rejected as bullionism does not desire the truth to be published from the house tops.

In the inquiry instituted before the Lords' Committee, in 1848, it was distinctly admitted that in raising or lowering the rate of discount the Bank of England threw overboard all national considerations, and looked solely to the interests of the shareholders in the corporation.

"In regulating the rate of interest we look, of course, to the state of the reserve. We are either to increase or to diminish the amount of the reserve, as may be required, by raising or lowering the rate of interest, or by the sale or purchase of securities. Supposing the demand upon the bank, for instance, were considerable and more than the bank were able to afford, it would be necessary to put up the rate of discount. On the other hand, if the reserve of the bank was increasing, and it was not thought advisable to purchase securities, naturally the rate would be put down. The putting up or lowering the rate would be guided by the state of the reserve, reference being also had to the rate of interest in the market."

We have drawn a distinction between the SCIENCE OF SOCIETY AND THE SCIENCE OF POLITICAL ECONOMY, and contended that the latter should always be deemed subordinate to the former. The one deals with the interests of man, as a moral and intellectual being; the other confines its speculations to insentient matter. Political economy does indeed profess to teach the art both of the production and distribution of wealth, but on the latter head it has done little or nothing for

the sons and daughters of toil. Indeed, as nations advance in what is popularly called civilization, there has ever been a tendency to concentrate riches in the hands of a few; and as the idle classes increase, they who produce most, consume least. It is this injustice that led to the downfall of all the great nations of antiquity, for if labour builds up a state, labour alone can sustain a state; degrade labour and you sap the foundations on which the superstructure rests. So it happened in ancient Rome in what are deemed its palmiest days of civilization.

“During the entire ages of Trajan and the Antonines,” says Sismondi, “a succession of virtuous and philosophic emperors followed each other; the world was at peace; the laws were wise and well administered; riches seemed to increase; each succeeding generation raised palaces more splendid, monuments and public edifices more sumptuous, than the preceding; the senatorial families found their revenues increase; the treasury levied greater imposts. But it is not on the *mass of wealth*, it is on its *distribution*, that the *prosperity of states* depends; increasing opulence continued to meet the eye, but man became more miserable; the rural population, formerly active, robust, and energetic, were succeeded by a foreign race; while the inhabitants of towns, sank in vice and idleness, or perished in want *amidst the riches they had themselves created*.”

Sismondi then shows the pernicious results of colossal accumulations:—

“During the long peace which followed the victories of Trajan and Marcus Aurelius, those colossal fortunes were accumulated, which, according to Pliny, ruined Italy and the Empire. A single proprietor, by degrees came to buy up whole provinces, the conquest of which had in former times furnished the occasion of many triumphs to the generals of the republic. While this

huge capitalist was amassing riches, wholly disproportioned to the capacity of man, the once numerous and respectable, but now beggared middle class, disappeared from the face of the earth. In districts where so many brave and industrious citizens were to be seen in former times, alike ready to defend or cultivate their fields, were found to be nothing but slaves, who rapidly declined in number as the fields came to be exclusively devoted to pasturage. The fertile plains of Italy ceased to nourish its inhabitants; Rome depended entirely for its subsistence on the harvests which its fleets brought from Sicily, Africa, and Egypt. From the capital to the furthest extremity of the provinces, depopulation and misery in the country co-existed with enormous wealth in the towns. From this cause the impossibility of recruiting the legions with native Romans was experienced even in the time of Marcus Aurelius. In his war against the Quadi and Marcommani, which had been preceded by a long peace, he was obliged to recruit the legions with the slaves and robbers of Rome. It is impossible to give a stronger proof of the extent to which the enormous evil of the vast fortunes accumulated in the towns, and the entire ruin of industry in the country, had gone in the last days of the empire, than is to be found in the fact, that when Rome was taken by Alaric, in the year 404 after Christ, while Italy could furnish no force to resist the invaders, the capital itself contained seventeen hundred and sixty great families, many of them with incomes of £160,000 a year, equal to £300,000 of our money, whose expenditure maintained an urban population of one million two hundred thousand souls."

One quotation more from the French historian Michelet, may serve to complete this picture of contrasted wealth and destitution, of Dives and Lazarus.

"The Christian emperors could not remedy the growing depopulation of the country any more than their



heathen predecessors. All their efforts only showed the impotence of government to arrest that dreadful evil. Sometimes alarmed at the depopulation, they tried to mitigate the lot of the farmer, and shield him against the landlord; upon this the proprietor exclaimed he could no longer pay the taxes. At other times they abandoned the farmer, surrendered him to the landlord, and strove to chain him to the soil; but the unhappy cultivator perished or fled, and the land became deserted. Even in the time of Augustus, efforts were made to arrest the depopulation at the expense of morals, by encouraging concubinage. Pertinax granted an immunity from taxes to those who would occupy the desert lands of Italy, to the cultivators of the distant provinces, and to the allied kings. Aurelian did the same. Probus was obliged to transport from Germany men and oxen to cultivate Gaul. Maximin and Constantius transported the Franks and Germans from Picardy and Hainault into Italy; but the depopulation in the towns and country continued. The people gave themselves up to despair in the fields, as a beast of burden lies down beneath his load and refuses to rise. In vain the emperors strove, by offers of immunities and exemptions, to recall the cultivators to their deserted fields. Nothing could induce them to do so. The desert extended daily. At the commencement of the fifth century, there were in the *HAPPY COMPANIA*, the most fertile province of the empire, 520,000 jugera (320,000 acres) in a state of nature."

Alluding to this desolated state, amounting to one eighth of the whole surface of the province, Gibbon expressly says—"As the footsteps of the barbarians had not yet been seen in Italy, the cause of this amazing desolation, which is recorded in the laws (Cod. Theod., l. xi. b. 38, c. 2) can be ascribed only to the administration of the Roman emperors."

In these passages the evils of concentrated wealth are vividly illustrated. As wealth accumulated men decayed, not because wealth *was* accumulated, but because it was inequitably distributed. Not only had whole provinces become the property of an individual, but usury existed in so frightful a form that even the virtuous Brutus, when Proconsul of Sicily, received sixty per cent. for the loan of money; whence we may form a faint idea of the extortions of those who were more unscrupulous. What must have been the income of Agrippa, who, at his own expense, built the Pantheon, and supplied Rome with one hundred fountains, all ornamented with marble columns and statues? The colleague of Cicero was proprietor of the whole island of Cephalaria, on which he built an entire city. In the time of Nero it was ascertained that six Romans were in possession of one-half of Africa; and it would be easy to mention the names of many others enjoying colossal fortunes. Now Pliny distinctly says that these immense agglomerations of wealth, which he also declares ruined Italy and the provinces, were due to the concentration of estates, which he terms "*Latifundia*," and to usury. His words are—" *Fœnus hoc fecit et nummus percussus.*"—"Usury did this and coined money."

The legislation of Sir Robert Peel and Mr. Loyd tend to realise in England the same injustice and ruin which occasioned the downfall of Rome. In a recent memorable trial, it appeared that usury is now so extortionate, that attorneys (certainly not of a reputable class) take 60 per cent. on loans, and require the interest to be paid monthly, so that in eighteen months the accumulated interest equals the principal, while the debt remains undiminished.

The science of society affirms that since it is the privilege of industry to heap up wealth as its reward,

so it ought to be the punishment of idleness to break down riches till they wholly disappear.

Such would inevitably be the case if the perception of interest were abolished. If we except some of the harder metals, perishableness is an inherent quality in commodities, and it is universally true in the vegetable kingdom; but when a government makes a contract for perishable commodities, and gives for them a monied equivalent, that monied equivalent, when it takes the form of a funded debt, becomes, or may become, imperishable. Thus the English are still paying interest on the gunpowder exploded in the wars of Marlborough, though the principal sum, representing its original cost, has been discharged over and over again. Thus usury confers immortality on debt, and every child born after the contraction of the debt is reared in the cradle of fiscal bondage. Thus monied classes are perpetuated by usury, as landed classes are perpetuated by primogeniture. These two laws are the parents of political privileges, and privilege necessarily demands exclusion as the condition of its own existence. The two forms of wealth, landed and monied, unite on behalf of privilege, and their alliance puts down and keeps down all the rest of the community who have neither acres nor gold. The legislation of Peel and Loyd has riveted the fetters of this form of servitude.

A brief summary of the leading principles attempted to be enforced in this work may not form an inappropriate termination.

1. Legal tender money is a mere token or symbol of value, which need not and ought not to possess intrinsic value.

2. It is the double instrument of fiscality and commerce; in the first character representing national taxation, in the second distributing commodities.

3. As the instrument of fiscality, its creation falls within the prerogative of the crown, but it ought to be limited from year to year to the annual amount of taxation, by observing which precaution it could never be excessive; and provision being made for its periodical redemption and extinction, it could never depreciate.

4. As an instrument of commerce, legal tender ought to expand or contract with the exigencies of trade; and though Government has no right to interfere with this kind of money under the pretext of "regulating its quantity," yet, for the protection of the public, it ought to take landed, funded, or other unexceptional security from those banks to whom it gave a charter of incorporation. Those banks would not be allowed to manufacture their own notes, but would receive them from the Government.

5. Bread corn is the true *standard* of value; gold and silver are the *measures* of value.

6. Capital is accumulated labour; it does not consist exclusively in gold and silver, which are themselves mere commodities in the same sense as iron or coal, but in the aggregate of all commodities.

7. When gold or silver is coined, no additional value is conferred on the coin. Equal weights of coin or bullion, if of equal purity, are equivalent in value. But when a monied denomination is put on coin, its price is necessarily fixed, for that is the effect of a monied denomination.

8. Value expresses labour condensed or embodied in commodities; price denotes taxation and value combined.

9. Indirect taxation, by adding to the cost of production, without adding to the value of the product, ought to depreciate the pound of account,—that is to say, it ought to enfeeble its purchasing power in proportion to the rate of indirect taxation. This is the



act of the Government, and shows no defect whatever in the monetary instrument.

10. As nations deal among themselves according to *price*, and with foreigners according to *value*, two distinct modes of exchange are required for the home and foreign trade, as pointed out by Plato.

11. Usury is not paid for the legitimate use of money, but is an extortion levied on account of its artificial scarcity.

12. There are no markets but what are created by our hands, in obedience to our necessities and desires. In all markets, legal tender money forms one half of every bargain.

THE END.

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